

# EVERYONE'S ECONOMICS



# Everyone's Economics

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"EVERYONE'S AFFAIRS: A FIRST BOOK FOR CITIZENS,"  
THE FIRST PRINCIPLE OF TAXATION," ETC.

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TO  
EVERYONE

WHO WORKS FOR HIS LIVELIHOOD ;  
WHO IS CONSCIOUS OF THE WORLD'S CO-OPERATION  
WITH HIS WORK ; AND WHO IS INTERESTED IN  
THE MECHANISM OF THAT CO-OPERATION,  
THIS BOOK IS DEDICATED.



## PREFACE

READERS of books on Economics, though relatively few in numbers, are nevertheless of at least two kinds. There are students, most of whom carry with them the consciousness of an examination to be faced ; and there are members of that vague class, "general readers." These last are urged to make inquiry of "the dismal science" by curiosity, or by a sense of citizenship, or by a desire to have a basis of greater accuracy for their opinions, beliefs, prejudices.

To aim at satisfying the needs of both these groups of people in one and the same book is to take risks. An attempt has been made, by the device of an Appendix of a somewhat unusual kind, to minimise these risks. The student, at least, will need the whole book. It covers enough ground for examinations on Economics up to the Intermediate B.Sc. (Econ.). But for any examination whatever, the student is advised to read at least one of the shorter works on economics quoted in the Appendix.

A mixed aim of the kind indicated above hinders the free expression of individual views, for examinations have an orthodoxy even more strictly defined than that of most text-books. Nevertheless, an effort has been made to show some of the divergences of opinion that exist. This is one of the reasons, and it is sometimes the main reason, for the varied quotations that are given. Books on economics, and especially "elementary text-books," have a tendency to represent the body of knowledge existing under the name of Economics so that it appears

as a complex of tested and generally accepted truth. The variants and the doubtful regions where opinions strive are for the most part avoided, or represented in a dim (but often coloured) light. This is not the best preparation for an inquiry into an aspect of truth, a branch of human knowledge. It is doubtful if it is even the best preparation for an examination.

In some ways the reader and the student are helped in this volume more than is usual in works of this size. In other respects, however, the inquirer is left to do his own share. Many of the lists of figures, for example, can readily be made into graphs. But the chief work left to the student is in cross-referencing. This may be explained by a single example. The quotation on wages and price-movements since 1896 (page 174) should be compared with

- (a) The index figures of prices (p. 168) ;
- (b) Gold production (p. 189) ;
- (c) The Quantity Theory (p. 191) ;
- (d) Credit (p. 42) ;
- (e) Gold and Prices (p. 175).

Others among the quotations should help the student to recognise theories under different forms of words ; and to allow for the different degrees of intensity in which a theory is held. Thus the Quantity Theory may be expressed so as to give the idea of an exact proportion between gold and prices—that if the supply of gold is doubled, then all prices will be exactly doubled. In this form the theory has few supporters. In a less rigid form, without an insistence on exact detailed correspondence, and with allowances for other influences, it is held by many.

Economics has been described as a science, and as a pseudo-science. It is at least a branch of human knowledge, and like all branches of human knowledge, it is incompletely exact. Economics consists of :

(1) Statistics, more or less correctly gathered and arranged.

(2) Data from observations made of the actions of men in concerns of food, clothing, shelter, trading, working, spending, saving, gaining and using property, dealing in exchange values.

(3) Inferences from these statistics and these data, drawn more or less correctly, and expressed more or less correctly, in the form of maxims, rules, principles, laws.

(4) Emotional colourings, caused by the natural bias or prejudice of individuals and groups. Thus opinions and interests may colour fact. These opinions may in themselves have an economic source, as for example in the differing opinions of "the City" and the workshop as to the probable effects of a Capital Levy. In each case, the interests of the two parties, vested or investing, translate themselves into words of reasoned argument. One of the parties is no doubt in the main right, economically, politically, or (and) ethically; and the other wrong. But neither can eliminate the emotional colouring arising from personal or group interests, and let only the white dry light of reason show the facts in their relative significance.

Emotional colourings, also, may have a non-economic source, such as religious belief. The centuries-long opposition of the Christian Church to the taking of interest is an obvious example. "Christian Economics," "Marxian Economics," or economics with any limiting adjective prefixed, implies a pre-requisite. There is an assumed declaration: "I lay down, first of all, a belief, a faith, a set of dogmas. Such findings of economists—of economics in effect—as may contradict this faith I reject beforehand. The teachings of the Church, or, the Sermon on the Mount, or, the Labour Theory of Value—this and this are pre-assumptions. Within this area I may accept the findings of economics; but not without the area."

This is a plain human attitude. To affect any kind of superiority to it is to forget that it is almost a universal attitude. No one comes to the study of economics without some pre-assumptions. Every one has emotional colourings of both the kinds here outlined; that is, interests more or less economic, and pre-assumptions of belief.

The writer is indebted to his friend Mr. T. P. Gunton for some useful criticism and suggestion, and he owes thanks to his publishers for a keen—and fruitful—interest in the work. There remains with the author his responsibility.

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# EVERYONE'S ECONOMICS

## PART I

### CHAPTER I

#### WEALTH AND ECONOMICS

ECONOMICS is the science of wealth. That is a clear and simple definition, and it is quite satisfactory, until we begin to ask whether or not we all mean the same thing by the word "wealth." As soon as we do this, we come upon some striking differences of opinion as to what wealth really is, and therefore there are differences of opinion as to what should be in a book on economics, and what has no strict right to be there at all.

"To be wealthy," wrote John Stuart Mill in his *Political Economy*, "is to have a large stock of useful articles." To this John Ruskin replied, a dozen years later: "I accept this definition. Only let us perfectly understand it." First of all, he asked, what do we mean by having articles? A passenger in a Californian ship that was sinking fastened round himself a belt of two hundred pounds of gold, and was found with it at the bottom of the sea. Now, had he the gold when he was sinking, or had the gold him? The definition must be altered to "the possession of useful articles *which we can use*." Next, Ruskin said, it must be a good use and not

a bad one: use, not abuse. Therefore wealth should properly be in the hands of those who can use it well. So he came at last to say that Wealth is "the possession of the Valuable by the Valiant."

Most writers on Economics, however, say that this takes in too much. It takes in something concerning health, conduct, and government, for example. But these affairs are best studied separately, and in fact that is done, under the names and in the sciences of Hygiene, Ethics, and Politics. Economics ought to mind its own business. That business, says a modern writer (Professor Marshall) is to inquire "how a man gets his income and how he spends it."

Here are two different opinions about how Economics should be written and studied; and to these we may add a third. This last opinion comes in because of the chief word in Professor Marshall's definition: the word "income." If we think for a moment about the income of a doctor, a clerk, a schoolmaster, a policeman or a postman, we can see at once that it has little to do with "a stock of useful articles," large or small. These men certainly buy articles in spending their incomes, but they get their incomes in return for their services. Now services are not articles, or "goods"; and so it would be quite possible to leave them out of our discussion, and to talk only about goods. That idea of Economics is quite different from Ruskin's or from Marshall's idea.

Here, then, are three different notions about what Economics should concern itself with:

- (1) How to get valuable things into the best hands, so that they may be used in the best way;
- (2) How incomes are actually got and spent;
- (3) How certain things (goods but not services) come to have economic values.

As we shall deal with services as well as with goods, in this book, we may put aside this last description of

economics. Of the other two inquiries, the first is certainly the greater and the nobler, and it will more and more claim the attention of mankind. It is more important than Economics, and it is more than Economics. It might be called Good Citizenship. But to-day it cannot very well be called Economics, for it is too big for the title. Perhaps, if men had continued to fix their attention on the first of the three questions, instead of turning, as they have done, to the second, the world would have been a better world than it is to-day. Perhaps in the future men may pay more attention to it, as no doubt they will, and with good results. But, as a matter of fact, the word economics now means the second inquiry rather than the first, and therefore in this book we shall deal with the getting and spending of incomes.

It would be foolish and mischievous, however, to forget that when we divide up our knowledge and studies into History, Geography, Economics, Ethics, Hygiene, and so forth, we are only doing so because that plan is convenient, and because many branches of knowledge cannot be learned by any one man. All knowledge is really one, though no one man knows it all. We may study separately the laws of Health, the laws of Wealth, the laws of Government, and the laws of Conduct. But if these laws are eternally kept separate from one another, and never brought together in our minds, they will be of little value to mankind, either to-day or to-morrow.

One other definition of Economics comes from the word itself. "Economics" is Greek for "housekeeping." The getting and the spending of the income of a family, or a nation, is an affair of housekeeping. It is an affair, too, of good or bad housekeeping. Some economists have said that Economics has nothing to do with goodness or badness, but only with describing how wealth is actually made and used. But, even when we take the second of the three descriptions as our subject,

we should be thinking of good and bad ways of getting and spending an income. The difference between good and bad things, good and bad deeds, good and bad men, is the most important part of the story of mankind.

Economists are now for the most part agreed to arrange their subject so as to consider questions of wealth and income. They nearly all agree, also, in dealing with the "services" of a doctor or lawyer, as well as with "useful articles." In the third place, they agree in keeping away from Politics, Ethics, Hygiene, and such branches of knowledge, as much as possible. They cannot keep quite away from them, because these things are all linked up in real life. Some economists tried to keep away from such subjects altogether. "We will only consider," they said, "one side of men, the business side." They imagined an "economic man," not because they thought there was any such person, but because they wanted economics to be like the lady who "kept herself to herself." But it is not possible for economics—or the lady—to do that very completely without becoming rather ridiculous. Sometimes the economists made the economic man look ridiculous.

Economics, then (1) should concern itself with wealth and income, with the business side of life, with private, national, and world-wide housekeeping; (2) should mind its own business, and not talk too much politics or hygiene; and yet, (3) should consider the laws not only of housekeeping, but also of good housekeeping, and should allow its edges to overlap a little into politics and ethics without being very eager to cut off those edges so close as to make economics itself look ridiculous. All knowledge is for the use and benefit of mankind, and the divisions of knowledge should not be permitted to make nuisances of themselves.

## CHAPTER II

### WANTS ; AND THE DIVISION OF LABOUR

THE beginning of Economics is simple enough : we want things. If we were all Robinson Crusoes, the end also would be simple. If Robinson Crusoe wants a thing, he must make it or find it. But when a modern man in a civilised country wants something, a pair of boots for example, he does not usually make them or find them. He buys them in a shop, with the money he has got. No money, no boots.

Now, here comes into view a whole tangle of affairs : money, income, banks, government, shops, boot factories, railways and vans to bring the boots, shopkeepers paying rent for their shops, paying for gas or electric light, paying rates, paying wages to shop assistants. This is a long way from Robinson Crusoe making himself a pair of boots. The main problem is the same—wanting things and trying to get them. But we get our bread and boots and coffee through a web of arrangements spread over the world to China, India, America. We live in a co-operative world, with men's work and business wonderfully linked up. A great deal of the linking up has come about without much planning. But it seems as if men all over the world are becoming more and more linked up with each other, "members one of another," in spite of their quarrels and disagreements. Not all of this arises from wanting the things that Economics deals with, but much of it does.

It is a fortunate thing that this is so. If each one of us could supply all the things he wanted as the earliest men were once supposed to have done, what we call civilisation might never have appeared. But even the earliest men, as the scholars now tell us, very likely lived in groups and were "linked up" with others in the group.

Still, the earliest men did actually satisfy a good many of their wants quite simply. Early man woke up feeling hungry. He wanted breakfast, and breakfast was perhaps swimming in a river or nibbling grass, or, if it was a vegetarian breakfast, hanging on a branch. Early man had to exert himself, make an effort, capture his breakfast, and satisfy his want by eating. His next want would probably be rest, which he could get by the smaller effort of lying down in the sun, or under shelter, according to the season.

We will suppose that the same man, a few weeks later breaks his leg, and can no longer run after his breakfast. It used to be thought that in such a case the man was generally left to die. But the scholars we have already mentioned say that the early men were less fierce and cruel, and more helpful to each other, than our grandfathers thought. The cripple would probably soon be engaged in helping to make stone choppers or spears, or in scraping skins for clothing. He might easily become clever at one of these crafts. He would then help to satisfy the wants of the other men—their want of spears, let us say; while they in return would satisfy his daily want of food.

This is what is called the Division of Labour. We cannot say, of course, exactly how it began among men: our story is but a guess. It is certain, however, that it began very early, and that whatever and wherever was its beginning, we can see no end to it.

When the famous economist, Adam Smith, began his book on *The Wealth of Nations* (1776), he started by explaining the causes which made men's labour able to



produce more wealth. The first cause, he said, was this very division of labour, and he was so impressed by the importance of this cause that he forgot to mention any other.

Adam Smith went on to illustrate what he meant, by describing the manufacture of pins. If a man tried to make pins entirely by himself, he said, at the most he could not manage to turn out more than twenty in a day. He might not make more than a single pin. But now, he said, see what ten men can do working in a small factory, with some simple machines. "One man draws out the wire, another straits it, another cuts it, a fourth points it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper." This ten-man factory, he said, turned out not twenty pins a day, but forty-eight thousand, or four thousand eight hundred per man. (The method of making pins is now quite a different one.) Some people said of this and similar cases: "Yes, it is very wonderful. But what an awful life for a man, to be all day long making the tenth part of a pin!" And this brings out at once the fact that the division of labour, like a thousand other things in life, has a bad and a good side. Pins are only important because people want them, because they satisfy a want (a small one) in people's lives. But if we are to spoil people's lives for the sake of producing many pins, surely that is giving up a big thing for the sake of a small one! The real wealth of a country, said John Ruskin, is in its "bright-eyed and happy-hearted human beings." Another writer, after visiting the cotton factories of Lancashire, said that here the cottons were improving, but the workmen, women, and children were not: rather the reverse. Let us have worse cotton and better men, he said.

These people were quite right. People are a thousand

times more important than millions of pins or of cotton-pieces. But is it impossible for us to have better cotton and also better men? It is not impossible: but neither is it easy. It needs good will, accurate knowledge, thought, and taking pains. It is the chief reason why economics should be studied.

If the division of labour makes it necessary for some people to do a simple monotonous piece of work, such as sticking pins into paper, then we must find how to shorten these people's hours of work, how to provide them with sufficient change. In many cases, a practical cure is found in machinery itself. A machine is invented to stick the pins in the paper. But the problem is not ended. The new machine needs some one to pull a handle and draw out papers of pins all day long. Every change in our lives brings its new problems. Nor need we regret that there will always remain problems to be solved, difficulties to be got over. Mind, as readily as muscle, grows slack and feeble when no more effort is needed. It is said that people have died through nothing but losing all interest in life, and doctors tell us that such a thing is by no means impossible. A certain amount of effort is necessary for health and life.

One of the earliest forms of the division of labour would be between men, women, and children; and a great deal of this form of division has lasted through all ages of mankind, and is very widely spread to-day. Housework is still mainly women's work, mining and bridge-building are mainly men's tasks. Yet there have been great changes. It is possible that agriculture was at first chiefly a women's task. Spinning was almost entirely in the hands of women until the invention of machines.

The division of labour is plainly something that carries advantages and disadvantages with it, and these we may set out.

### Advantages of the Division of Labour

(1) *Increased productivity.* This is the chief argument, as we have just seen, for Adam Smith's pin factory.

(2) *Increase of dexterity.* The old proverb "Jack of all trades is master of none" is an argument in favour of the division of labour. In another form it might be "To master your trade keep to one trade." If we are told that a man is a blacksmith, a lawyer, an artist, a farmer, an engineer, and a doctor we do not easily believe that he can be very skilful in all, or even in any one, of these crafts. But this matter also gets split into divisions of "advantages and disadvantages." There are some occupations, such as tending a small machine which folds papers or bends thin metal plates, where great skill and speed are reached in a few months. When the "Jack of all trades" proverb was first used, it referred to trades that required years of apprenticeship. But many of the occupations in a modern factory are not trades at all. They demand little skill and they give little variety. The old trades were often an education in craftsmanship.

(3) *Saving of time, saving of tools and machines.* When a man works with few tools or with one machine, he spends little time in moving about.

(4) *Performing complicated work.* An elaborate piece of work, such as building an Atlantic liner, is only possible because a very great deal of skill and knowledge, beyond the powers of a single man, can be supplied by ironfounders, steel-makers, engineers, designers, riveters, brassfounders, carpenters, electricians, and so forth. These, again, are divided into branches.

### Disadvantages of the Division of Labour

(1) *Monotony.* We know now that our bodies, and still more our minds, need a great deal of change.

Change is necessary for health. It is still more necessary for growth and improvement. If we could cause any man, however intelligent, to have less and less change in his life, we should see him become more and more stupid, until we said, "He is a perfect idiot." Loneliness and monotony are the parents of idiocy.

(2) *The creation of helplessness.* None of the workers in Adam Smith's factory was able to make a whole pin. A worker in a modern boot factory is unable to make a pair of boots. A girl employed in making cigarettes in a factory, was quite helpless when she was asked in a house to roll a cigarette. "We don't do it like that," she said. A boy who had done excellent work at a "manual centre," being asked by his mother to make a small bookshelf, said: "We have only a hammer and a fretsaw and some nails in the house. I can make a very rough shelf. But I can't make joints without a chisel, or smooth the boards without a plane, or get any corners true without a try-square; and of course I can't do any beading or chamfering." The more elaborate the tools become, the more helpless is the skilled worker without them. Yet, as men's wants grow more elaborate, the ways of supplying these wants—tools, machines, skilled specialists—grow more elaborate also.

How may we secure most of the advantages of the division of labour, without having to suffer serious disadvantages? One or two methods have been suggested.

(1) We may increase the division more and more, and at the same time shorten the hours of labour. By this plan, it might be possible at last for each workman to pull a single handle which would cause an automatic machine to cut the thread of a screw; or give a certain tap with a hammer at each piece of metal as it passed him on an endless band; or "feed" sheets of paper into the mouth of a printing-machine. Goods would be made by a series of ingenious machines, each tended by one or two men (or girls), all working as part of a wonderful

system where no thinking and very little skill was needed. The machines would be made so as to be "fool-proof"; that is to say, people who are very foolish could manage them quite well, and without accidents. The thinking would be done by the inventors of the machines, by the designers of the factory and its arrangements, by the organisers who watch its working, by the skilled men who repair broken machines and replace worn-out parts. But the mass of the workers in the factory would scarcely need to think at all. Safeguards against accidents, arrangements for good ventilation, methods of lighting and warming, could be made as automatic and "fool-proof" as the method by which each machine drew from a tank overhead just as much oil as it required, and no more.

On the other hand, the workers in such a factory might work for only six, five, or four hours in the day, and they might be well paid. In the works where Ford motor-cars are made, the wages are high and the hours of work are few. The workers, therefore, have a good deal of the day left to them for leisure, rest, recreation, and if they wish, study and education. This method can give us a good supply of cheap goods produced by well-paid workers. There need be no "sweating" under such a plan. The world needs a plentiful supply of goods, it wants work to be done under safe and healthy conditions, it wants people to have sufficient leisure for pleasure and improvement. All these things are possible under this plan of division of labour until each man pulls one handle and one handle only.

One objection can be made at once. All the work of the world is not suited to this method. Pruning fruit-trees, painting pictures, curing sick people, cannot be done by pulling handles. But the believers in the division of labour may reply that a great deal may be done by this method even in these tasks: in the great majority of the world's tasks. Pruning on large fruit farms, can be made

the job of special "pruners," who do nothing else for a good part of the year. They could be supplied with ingenious "pruning machines," wheeled from tree to tree. Pictures could be painted by a kind of typewriter, which could squirt or spray out different colours when different keys were pressed. Sick people could be wheeled through a Restoration Factory. At the entrance a skilled doctor would make an examination and call out : "Broken bone Department." The patient would be wheeled away to the right on a trolley, through a door where another doctor would say : "Leg Division." Off he would go, wheeled past a line of operators, one of whom would lay bare the broken leg, another make the first step towards straightening it : and so on, until the patient, neatly tied up, would be handed over, at the Delivery Door, to his waiting friends.

This seems absurd, but impossible it is not. The machine method and the division of labour method can be applied to more and more of the world's work. The number of skilled "specialists" in all branches of knowledge increases. The division-of-labour method can be used to a far greater extent, and in more branches of the world's work, than we are inclined to suspect.

This argument, then, that the division-of-labour method can only be used for producing a rather small part of the world's goods, is not so powerful as it at first appears. There is another argument, however, of a quite different kind.

The most fortunate workers are those who can take a keen interest in their work, and enjoy it. All the different kinds of men and women whom we call artists or artistes, all highly skilled craftsmen, all who can create new things, all who can feel a thrill at the importance of what they are doing, at their belief in its value to the world—all these people are getting their pleasure, their satisfaction, and partly also their education, in the work itself. Their day is not divided up into (1) uninteresting work with no

intelligence or thrill in it ; and (2) "time off" for rest and pleasure and interesting things. These artists and craftsmen are likelier to become live and intelligent people than the handle-pullers. It is possible for them to spend all the hours of the day satisfactorily. The most important articles of wealth in the world, when all is said, are fine men and women.

But also, it may be said, we must remember that there is a great deal of dull work that has to be done. The head of a great firm must sometimes spend a long time signing cheques or doing something equally dull. The author must face the tiresome writing, or typewriting, or dictation of his books. Fortunately, this is no great difficulty. A small amount of "dull" work neither hurts nor troubles us. When it is a necessary part of a larger job, that has some real interest, it is no longer dull. The dullness comes when the whole day's job is dull. Thus the second method that has been proposed comes to this :

(2) Let us make daily work as interesting as possible, as intelligent as possible, even if we sacrifice part of the gains of minute division of labour.

(3) Another suggestion is that more variety of work can be introduced, even where the division of labour method is used. The same worker need not always be kept at the same task. Even pulling a different handle would at last be welcomed as a change ; but much more variety than this may easily be arranged for.

(4) Moreover, the tiresome job can be made more interesting if it is understood, and if the larger job of which it is a part is understood. Work can be made a part of education.

Division of labour gives so many advantages, and is going on increasingly in so many directions, that men are not likely to turn away from it. Methods for "setting back the clock" are not generally successful. It is more likely that we shall make improvements by removing

the disadvantages of the division of labour than by removing the division itself. It has been pointed out by several writers that the "craftsman" of the Middle Ages was in a better position to enjoy his work than the "factory hand" of to-day. He did not work at a small fragment of a job, but at the whole job. Even to-day the "joiner and carpenter" of a remote village gets far more variety in his work than a man turning endless chair-legs, all of one pattern, in a large workshop. But that is not a sufficient reason for going back to the fourteenth and fifteenth centuries. We should be able to learn what those centuries have to teach us, and to better it in the twentieth and twenty-first centuries. Today-and-tomorrow is more important than today-and-yesterday.



## CHAPTER III

### WANTS ; AND THE LAW OF DIMINISHING UTILITY

THERE seems to be no end to these wants of ours. New inventions bring new wants. In the "spacious days" of Queen Elizabeth (they were not spacious in all things) men did not want to ride in trains or motor-cars, to eat chocolate or to smoke tobacco (except a few), to "listen in" to wireless, to hear gramophones, to drink tea—these wants appeared as soon as it became possible to satisfy them.

Our wants might be put into different groups or lists. There are some of which we are rather ashamed, others of which we are proud. "I want to write a great poem," is likely to be said in different tones from "I've really had enough, but I want another slice of cake." Among our many wants, however, there are some which may be called economic wants, and it is with these that we are concerned in this book. Wanting to write a great poem is not an economic want. Wanting a slice of cake, or a motor-car, or a field, or an income, or a great poem printed in a book, is an economic want ; for all these things are concerned with wealth and welfare.

Wealth is being well-off in this world's goods. Health is a different thing, and so are honour, fame, contentment, glory, holiness, learning, skill, genius. These are all "wants" of some man or other. They are all possessed by some man or other. Possessing them may help a man to become wealthy, but they are not in themselves

wealth. For we know that a man may be a wealthy man, and yet be without health, honour, fame, contentment, glory, holiness, learning, skill or genius. However beggared he may be in all these things, yet he may be rich in this world's goods.

**Standards of Measurement.**—We measure wealth in money. It is not a perfect way of measurement, as we have all been reminded since the War. Our British standard of measurement in length is the yard, in wealth the pound sterling. The yard remains unchanged. A Londoner may go to Trafalgar Square, and measure a yard on his walking stick by the standard fixed there, without the least fear that he will find it longer or shorter than it was in 1914. But the pound sterling is not so fixed and firm a standard. A book was published, shortly before the War, called *Round About A Pound A Week*, describing the lives of people whose wages were about £1 a week. If our money-standard were as firm and unchanging as our length-standard, then people with incomes of about a pound a week would now (1924) be just about as well or as badly off as those described in 1913. They are not so well off; and in 1920, people with a pound a week were even worse off than they are in 1924. On the Continent, the changes have been tremendous. The German mark, which before the War was worth about an English shilling, fell until a million marks were sold in English streets for less than one shilling.

Evidently men have been far less successful in discovering a standard for wealth than in discovering a standard for length. The problem is enormously more difficult. Even the problem of finding a satisfactory standard length was not easily solved. For ages, the standards men used were finger breadths, spans of the hand, foot lengths, paces, and such-like body measurements. They were unsatisfactory, because men's feet and fingers are not at all alike. Improvement came

when groups of men agreed upon a fixed standard. Even yet there is not one standard in general use, though the metre, adopted by scientific men of all nations, is very widely used.

When a more exact standard is used, it is usually an artificial standard. The old finger breadth, span, and so forth, were natural standards ; but they were inexact. The metre was an attempt at a natural standard—a ten-millionth part of the distance from the Equator to the Pole—but the measuring of that distance, although it was very carefully done (1790–1795), depended upon the instruments used. It is approximate, but not exact. The metre is an artificial standard, like the English yard.

Standards of money also are artificial, but they are remarkable in comparison with standards of length, in their unsteadiness. In all questions of economics, in all questions of law, government, and what are called the social sciences, there is this same difficulty. The chemist and the mathematician can weigh and measure easily, as compared with the economist.

Money as we now use it is only one of many ways of measuring wealth. Among these ways, it is worth while to notice one great change. In earlier times, a man's wealth was reckoned in his flocks and herds, his stores of corn and clothing, of gold and jewels. His stores of goods, his "stock of useful articles," measured his wealth. If it were then asked, how rich a certain man was, the answer would be in this fashion : "He has a thousand sheep, five hundred goats, two large granaries filled with corn." But now we are more likely to say, "He has a thousand pounds a year."

This is a different and a more modern way of reckoning than the method of counting his store. It is a measure of a man's wealth in the form of income. It is far from being exact, because it depends on the pound sterling, and we have just seen how unsteady that can be. But

measuring wealth by income is more satisfactory than measuring by store.

**Satiable Wants or Diminishing Utility.**—Beginning, then, with our wants, we are impelled to efforts, in which we use labour, skill, intelligence, organisation, upon the natural objects we find on the earth, using such artificial aids as tools, machinery, railways, to arrive at a satisfaction of our wants. This gives us a connected chain: Wants—Efforts of labour and skill—Natural objects and capital—Satisfactions. We have two ways of measuring our power of satisfying our wants; by measuring our “stock of useful articles” or by measuring income. When we have inquired a little more into the nature of our economic wants, we shall turn to the other end of the chain and consider this way of measuring our power of satisfying wants that is called income.

We have spoken of the appearance of new wants; and that leads us naturally to the idea that “we are never satisfied.” There is no end to our wants and therefore no possible completion of our total satisfaction. But although the total of our wants is never satisfied, any individual want may be satisfied to excess. However much we may want to eat pudding or to drink tea, there comes a time when another slice or another cup offers no prospect of satisfaction whatever.

Economists have expressed this fact in what is called the Law of Satiable Wants, or the Law of Diminishing Utility. It is one of the most useful laws in economics, for it holds good from cases of eating pudding to cases of fixing income tax. We may begin here with the pudding: taxes can wait. You are very hungry, we will say, and you are given a small slice of pudding. As soon as your slice is eaten another is given you, then another, and so on, until you cry “Halt!” The first slice, of course was the most welcome, and the last slice that you could eat gave the least satisfaction. If you managed to dispose of ten small slices, then we might

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express the satisfaction you got from the tenth slice by the smallest whole number, 1. That gives a scale of wants and satisfactions.

<i>Slices of Pudding.</i>	<i>Amount of Satisfaction.</i>	
1st	10	} Over 60 per cent.
2nd	9	
3rd	8	
4th	7	
5th	6	} 18 per cent.
6th	5	
7th	4	
8th	3	
9th	2	
10th	1	
Total Satisfaction		55

The first four slices gave more than three times as much satisfaction as the last four. The difference is really greater than these figures show. That, however, does not matter very much to us at present. The important points are these :

- (1) All the slices are alike.
- (2) They are "valued" differently by the eater (consumer).
- (3) Their "utility" falls rapidly.
- (4) After the last (10th) slice, the consumer does not demand any more ; *i.e.*  
There is no demand for the 11th or 12th slices.
- (5) The satisfactions to be got by consuming slices 1 to 10, their "utility" in the economic phrase, falls continuously.
- (6) The cause of the difference in "utility" between the different slices, not being in the slices themselves (see No. (1)), must be in the consumer.

In ordinary language the cause is plain enough. The

consumer gets less and less hungry as he is more and more filled, till he is "satiated." His desire for any particular slice depends on the number of slices he has already had. In economic terms, the utility of each addition to a stock of goods depends on the total that the stock already contains; and each addition to the stock is of less utility than any addition of equal quantity already made. Or, when a stock of economic goods is formed by the addition of equal quantities, each quantity adds less utility to the total than the quantity that went before it, and more than the quantity coming after it. The more units of wealth we possess, the less do we gain by an additional unit. This is the Law of Diminishing Utility.

**The Scale of Wants.**—If we imagine a man slowly rising from need to affluence, we may build up a Scale of Wants from bare needs to luxuries. As his income rises, let us say, from ten shillings a week to ten pounds a day, we may imagine him climbing up the scale. At first, he has a very bare living. The early additions to his income make great differences to his life. The last additions will make but slight differences. The increases mean less and less to him as his total income increases. Such a scale may be set out in this fashion:

I. *Bare Necessaries*, sufficient to maintain life: that is, enough food, clothing and shelter (according to climate) to keep the bodily machine working without deterioration, though it may be far from doing its best possible work.

II. *Conventional necessities*.—In each age, and in each country, there are certain things, not absolutely necessary to life, which it is thought should be within the reach of every one. These things vary; but they show themselves in the allowances made to prisoners, criminals, and paupers. They are never reduced to bare necessities, in the meaning given above (No. I.).

III. *Comforts*.—Here again, and indeed in every group except No. I., we have a varying list. The luxuries of

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one age may become the fairly common comforts of another—window-glass and tea, for example.

IV. *Recreations*.—We may notice here that the items placed under II., III., and IV., may be thought harmful, and may in fact be harmful. Economic “goods” are not all of them good for us.

V. *Culture*.—In any true sense, all the higher enjoyments that should be placed in this group are “good” as well as being “goods.”

We cannot be certain, however, that a man with an increasing income will spend it in this order, from Bare Necessaries to expenditure on Culture. He will probably buy luxuries for himself, before he is sufficiently supplied with comforts or even with some necessities. The heading “Luxuries” would cover some parts of all the groups except Group I. The word is generally used to indicate the less commonly used parts of Nos. III. and IV.; but it is a word that can be very widely and very wildly used.

## CHAPTER IV

### INCOME

HAVING an income is a wonderful thing. Look, for example, at that man standing thoughtfully in the Strand. He has an income, we will say, of five hundred pounds a year. How he gets it does not matter to us for the present: that will come later, but just now it is enough that he has it. If he had overheard the last phrase, he might have twinkled a little at us and said, "Enough? No, not quite. I really need about six hundred or perhaps seven. Then I should be quite comfortable." It is rather remarkable that nearly all people think that their incomes should be about twenty-five to fifty per cent. more than they are. Then they would be "quite comfortable."

Just at this moment, as it happens, this man has hardly anything in his possession but the clothes he wears. He is just back from the Continent, and has only a few francs in his pocket. He has no home; his portmanteau he has just left at an hotel. Compared with the villager who has a thousand sheep, five thousand goats, and so forth, this man is a beggar. But although he is almost a beggar in worldly goods (at the moment) he is in possession of an income, which he is now about to use.

He enters a bank and asks for his pass-book. Of this quarter's £125, he has spent about £60, and £30 remains also from the last quarter—£95 to see him through the next three weeks, when another quarter's income will



fall due. He writes a cheque for twenty pounds cash. Fifteen one-pound notes, nine ten-shilling notes, and ten shillings in silver are handed to him. He steps into the street, armed now by the law and custom of his country to demand and to buy any and every sort of goods, any and every sort of service, that may be for sale, to the extent of twenty pounds. This is in essence what income means; the power to demand (and get) goods and services. Income spent on lawyers or doctors does not purchase goods, but it purchases the services of lawyers and doctors. Income spent in a shop buys goods. But income cannot buy goods or services that are not in the market for sale.

The first mark of income, then, is that it is the power to demand. The second is that the demand may be for goods or for services. The third is that the goods (or the services) must be "in the market." There is a fourth point: the demand is a continuous one. The owner of the income can go on demanding goods continuously, daily and yearly, so long as the pump of his demands does not dry up the flowing stream of his income. In this continuous demand, he may call for goods that do not exist, and have them made for him. He can lay his control upon the future. A year from now, certain cloth and food and boots and other articles will be produced in the world, and he has power to ear-mark for his use some of this wealth, not yet in existence—to the extent of his income. Three years from now, he has decided, the world shall produce for him a motor-car, one out of the many that no doubt will be produced in 1927. For that he means to demand less of other goods for two or three years, since this power of demand, remarkable as it is, yet has its limits, according to the size of the income.

Within these limits, however, this power of demand is wonderful enough. It stretches across time and space. It calls for a picture painted two hundred years ago, or for

one not yet painted. It lays claim upon food not yet grown ; it summons pineapples from Singapore at the other end of the earth. If we do not wonder at this wondrous thing, it is for the common reason that makes us lack wonder : it is too near and familiar.

The thought naturally arises, as we watch our friend walk from the bank to exercise his power of demand with his magic slips of paper, "What does he render to the world in return for the grant of this power?" That question we cannot answer until we know how he comes by his income. There may be many ways and forms, but they all divide into two : incomes that come from owning property, and incomes that come from labour. Both property and labour are of different forms and varieties, but all incomes come from one or both of these two sources.

Of the two, the older and more widely spread is the income that comes from labour. Before money came into use, and still in places remote from towns, this income is in the form of goods, generally the produce of harvest—corn, rice, or other grain. In a modern town the income is in the form of money, with which goods can be bought. The great changes in the value of money since 1914 have made us all realise that a money-value of £2 a week does not mean the same thing in 1924 as in 1914 : that is, real wages (or incomes) are not always shown by money wages.

To make comparisons of the buying-power of a fixed amount, like £2, in one year with that of another year, index numbers are used. They are described in the Appendix.

### Wages

Incomes from labour are called by different names : earnings, wages, salary, fees, stipend, hire. In the largest number of cases, the payment is what is described

as wages, so that of this form, at least, it is important to have an accurate notion :

The nature of wages is expressed by these five points :

- (a) The amount of the wage is fixed or understood beforehand.
- (b) The work to be done is fixed or understood beforehand.
- (c) The work is to be done under direction, or under orders. The time and place of the work are also, as a rule, fixed or understood.
- (d) The payment (wages) is made for a certain amount of work, measured in time (payment by the hour or day), or in quantity (piece-work).
- (e) The payment is made after the work is done.

These five points cover practically all forms of wage-payment. It is sometimes thought that wages are advanced beforehand, but that is not so. Wages are paid after the work is done, though they are usually paid before the employer sells the finished article. Let us follow the processes of a fairly simple operation, the supply of paving-stones to a town.

1. Quarrymen are engaged in blasting down portions of the walls of a quarry.

2. Other men cart away the pieces of stone to the trimming sheds, and the wastage to a dump.

3. In the trimming sheds, the stones are shaped to be used as paving stones.

4. The trimmed stones are carted to a railway siding, or to a wharf.

5. Men load the stones on railway trucks or on boats.

Each of these five sets of men will be paid a week's wages at the end of each week, or a day's wages at the end of a day. The whole five sets of men will probably be paid before the owners of the quarry receive payment

for any of the stones shipped. The owners may pay wages in advance of receiving their own payments. But they do not pay in advance of the work. If the quarry is sold, the value of a ton of blocks waiting on the wharf is not reckoned as the same as that of a finished ton in the trimming shed, or a ton of rough stone just blasted down, still less of a ton standing as natural rock in the quarry wall. Each set of workers (unless their work has been misdirected) adds value to the stone ; and it is for this they are paid.

Salaries are very like wages, but they are usually paid monthly or quarterly, and those who receive them are not as a rule working so directly under orders as those whose payments are called wages.

Salaries are nearly always time-payments. Piece-work, when it is paid at a high rate, usually takes the form of a fee.

### Profits

Incomes that come from the ownership of property are generally described as rent, interest, profit, or mixtures of two or more of the three. This division, however, is not a very good one. It comes down to us from an arrangement of some of the earlier economists :

Rent	from	Land.
Profits or Interest	from	Capital.
Wages	from	Labour.

We have already spoken of wages, salaries, and fees ; and these are payments for labour of different kinds, made by one person to another. But there are some payments for labour where we do not catch sight of one person paying another. To get this clear, we may take the case of Smith's Stores, Limited, whose general manager actually is a certain William Smith. For his work as general manager the firm pays him £1,000 a year. That is a clear case of salary for labour, and brings nothing

fresh to light, as yet. Mr. Smith also owns £4,000 worth of the capital of the Company. Last year, he received £320, in addition to his salary. It was reckoned on a division of the year's profits among the shareholders, each holder of a £100 share receiving £8; that is to say "a dividend of eight per cent. was declared." Now this £320 is payment for the use of money, or, "interest." Here we have a clear division of Mr. Smith's £1,320 for the year 1920 (let us say), into two parts, (1) £1,000, his salary as manager, or, as it is sometimes called, his wages of management or wages of superintendence; and (2) £320, interest on money lent.

Now Smith's Stores, Limited, actually took its name from this William Smith. For many years, the business stood in his name. There was then no Company, no Smith's Stores, Limited. It was so in the year 1910, and in that year, let us say, Mr. Smith's profits from the business amounted to the same figure, £1,320, as he received in 1920.

Year 1910.  
Profits, £1320

Year 1920.  
Interest £320  
Salary £1,000

We are only imagining the same figure £1,320 to occur in these two years; but, although that would be a little curious, it would by no means be impossible. It helps us to see that in 1910 also he was being paid, under the word "profits," partly for his work in managing the business and partly for the money he had put into it, or "lent" to it. It is quite likely that in order to start or to extend his business he had borrowed money from a bank. For this he would pay interest to the bank; and when he had paid that interest, and all his other expenses, the amount remaining was his profit.

Between the years 1910 and 1920, William Smith handed over the business to a Company, on certain conditions. He himself was to continue to manage the

business, and for his services he was to be paid £1,000 a year. Also, he was to have £4,000 worth of "stock" in the new company, for which he would receive his dividends, like any other shareholder. He might get 8 per cent., as in the year 1920, or 4 per cent., or 10 per cent., or in a bad year, 2 per cent. or even nothing at all.

Profit, then, may consist of two parts, (1) interest on money and (2) payment for services. It is not always possible to separate the two parts from each other, as we have done in this case; but if a man is in any kind of business "on his own account," where he puts money into the business, and also works in it, his profit will be in part interest and in part payment for services.

**Interest and Usury.**—From this it is plain that interest is simply payment for the use of money, just as wages of any kind is payment for work done. We could very well do without using the word "profit" at all, if we could separate out the part of it that is interest. Discussions about interest are centuries old. They begin under the older name usury, and usury was generally condemned (see Exod. xxii. 25; Neh. v. 7, 10, 11; Lev. xxv. 35-6; Deut. xxiii. 19-20; Ps. xv. 5; Prov. xxviii. 8; Jer. xv. 10; Ezek. xviii. 8, 9, 13; xxii. 12, 13). Usury was condemned by Plato, Aristotle, Virgil, Plutarch; and it was attacked by most of the Christian Fathers. Dante made a corner for usurers in his *Inferno*, Luther classed them as the greatest enemy on earth, after the devil. Calvin was the first famous theologian to hesitate, and from this hesitation there grew up a distinction between usury, to be condemned, and interest, to be permitted.

There are five views of the relation of usury to interest.

1. Taking any interest whatever is usury. All taking of interest on loans is wrong. Interest and usury are but two names for the same evil thing.

2. Usury is illegal interest; that is, beyond what the

law permits. In England interest was first permitted by the Act of 1545, when 10 per cent. was allowed to be charged. Various Acts reduced this to 5 per cent. by the year 1713. In 1854 all restrictions were removed (see Appendix).

3. Excessive interest is usury. The difficulty here is to say exactly how much per cent. should be called excessive.

4. Interest taken for loans to people in poverty or distress is usury ; particularly when they must injure their powers of making a livelihood in order to pay back the loan and interest.

5. Whoever borrows money or goods to use at a profit, ought to pay part of the profit to the lender : this is interest. Whoever lends an unproductive loan should demand no interest.

This last distinction illustrates the early history of usury. In a village where the chief occupation is cultivating the soil, a bad season or two may easily bring some of the inhabitants face to face with starvation. In such cases, men have sold themselves and their families into slavery, to escape a slow death from starvation. A villager, at such a time, might borrow a supply of corn, to be used for two purposes, (1) to feed himself and his family until the next harvest, and (2) to sow for next year's crops. The first may be called an "unproductive" use, and if any charge were made for the loan of it, then according to the ideas marked Nos. 1, 4, and 5, above, the charge would be usury, and unfair. The corn that is sowed, however, is in a different case. It will probably produce a crop, and, according to idea No. 5, there should be given out of the crop not only the whole loan, but interest, also, on the part of it that went to the sowing.

Conditions have changed so greatly that we are inclined to think the old feeling against usury mere foolishness and ignorance. But when loans were chiefly

made to very poor people, often in dire need and usually without advice or protection from their rulers, the strong feeling against money-lenders was both natural and right. By far the greater part of borrowing to-day is done, not by poor people, but by enterprising merchants, manufacturers, and firms, or by governments. The borrowings of governments may be for productive works; for railways, harbours, irrigation schemes; or they may be for the destructive work of war. If interest ought not to be paid on "unproductive loans," then it might be argued that the British Government should not pay interest on the seven thousand million pounds that were borrowed for the "Unproductive" War of 1914-1918. But another question arises: the correct meaning of "productive" and "unproductive." On this there is a note at the end of the present chapter.

This example shows the difficulty of the attempt to separate "usury" from "interest." The ancient world condemned the whole of it, which was a clear and simple solution. Between the years 1500 and 1900, opinion in Europe swung over to the other simple solution of permitting all kinds of interest (or "usury") to any extent. The chief cause of the change was in the growth of commerce and trading during those four centuries, and especially during the last of them, the nineteenth. Yet, at the very end of that century, in the year 1900, an Act was passed giving British Courts of law power to declare charges on loans of money excessive, to relieve the borrowers, to compel the lender to repay excessive charges, and to alter money-lending agreements. By the same Act, all money-lenders were compelled to register their names and addresses. This was one of the many cases where modern governments, after trying the plan of "letting business alone" (*laissez-faire*) made a partial return to the plan of government interference.



### “ Productive ” and “ Unproductive ”

Between two such opposites as “ productive ” and “ unproductive,” or “ skilled labour ” and “ unskilled labour,” or “ earned ” and “ unearned ” incomes there is not a dividing wall, or a boundary, or a blank emptiness. If there were, economics and many other studies would be much simpler. But between each pair of extremes there is a chain of connecting links ; and the separation is not always an agreed one. Certain links near the centre may be claimed as belonging to one end or to the other. Such a discussion might arise concerning the “ unproductive ” war of 1914-18. Although wars are destructive rather than productive, yet a war may act as a stimulant to production. All the countries engaged in the War of 1914-18 would not agree in describing that particular war as utterly unproductive. During the war itself, there was an immense production of “ munitions.” These are certainly economic goods, but their use was in the destruction of other economic goods and of labour, represented in human lives. Here are sufficient elements for a long argument about what is and what is not “ productive.” We may get a little closer to a solution by bringing in the question : “ Productive—of what ? ” The first answer might be “ Productive of wealth.” That in turn, brings us to the fact that ideas of what is wealth vary very greatly. In modern times, wealth is usually measured as income. If we mean by “ productive,” “ productive of an income,” then the activities of all munition-makers and soldiers are productive, So, too, are the activities of all speculators, successful gamblers, bookmakers, burglars, and thieves. If, on the other hand, we are to measure wealth by stocks of commodities, we must count the production of poison-gas and deadly drugs as productive work, although these products are often so destructive in their action. It is not possible to give a broad human

decision except by stepping beyond the domain of economics into ethics and politics.

The word productivity is also misleading at times. When we say "increased productivity" we may mean (1) a greater total produce, (2) a greater produce per head of population, (3) a greater output per worker engaged, (4) a greater output per £100 of capital invested. An increased productivity under No. (1) of these points might be accompanied by a decrease under No. (2) or No. (3) or No. (4).

There is much less unproductive work in the world than is commonly supposed, though there is a great deal of unproductive consumption, in the sense that many things are consumed that do not make the consumers more "fit," in the economic, or hygienic, or intellectual, or moral sense of that word.

## PART II

### CHAPTER V

#### MONEY

MONEY is the middleman or go-between of the business world. Many definitions of money have been given by different writers ; and, as usual, they do not all agree with each other. We may get clear the central idea of money by inquiring how it came into use in the place of simple exchange, or barter.

Arrows,	} are exchanged for {	Wheat,
Bows,		Yams,
Cocoa-nuts,		Zinc.

These names are taken to suggest two groups—

A, B, C, . . . , and . . . W, (X), Y, Z. Now comes an agreement to use M, the middle-man letter or article, to make the exchange more convenient by making it more roundabout. The A, B, C, and the W, Y, Z, articles are all exchanged for M's. The owner of A, gets 8 M's for it, and for that, let us say, he can " buy " a W and two Z's. So long as every one feels sure that all kinds of people are ready to take M's for all kinds of goods, then the first thing to do, if some K's or P's are needed, is to get a supply of M's to purchase the things wanted.

Everything turns on people's willingness to take M's

for their goods. If M's are generally acceptable, then M will become a real Money. It matters very little whether M is of any use for food, clothing, or for any other purposes except exchanging for food, clothing, and goods generally ; but money that people refuse to take is ceasing to be money.

Many articles, some of them strange enough, have been used as money at different times and in different places : flint axes, amber, shells, feathers, tusks, beads, leather, skins, hoes, sheep, cattle, slaves, salt, eggs, cod-fish, oil, corn, nails, " bricks of tea," sticks of tobacco. Metals were for a very long time hardly used at all ; but when they came into use, they gradually drove out other moneys, because they had so many of the marks of a good form of money.

These marks are :

- (1) *Acceptability.*
- (2) *Divisibility.*
- (3) *Durability.*
- (4) *Portability.*
- (5) *Stability.*
- (6) *Recognisability.*

Of these six marks of a successful form of money, the first is paramount. The use of money depends on the fact that people with A, B, C, or with W, Y, Z, are equally ready to buy and sell these articles for the money M, since M is acceptable throughout the community where these people live and trade. Divisibility may be secured by actual division : cutting or breaking. The English farthing (fourthing) was originally a broken-off quarter of a silver penny. But the same convenience can be secured by the use of several coins of different values.

The fifth point, stability, has shown itself, in the Europe of 1914-1924, as the most serious defect of our systems of money. German marks and Russian roubles

fell to thousandths of their pre-war value, and their fall caused an immense amount of suffering, chiefly to quite innocent people.

No exact agreed definition of money has been arrived at. Jevons, the writer of a famous book on money, thinks it impossible to give a definition. The question, he says, is "one of degree," and he points out that many such words exist in all languages. What is the exact meaning, he asks, of "building" and "house"? "Which of these objects is to be considered a house, and why: stables, cow-houses, conservatories, sheds, light-houses, tents, caravans, hulks, sentry-boxes, ice-houses, summer houses, and parish pounds?" The difficulty, he declares, "is exactly analogous to deciding what is money or cash."

The different ideas as to what is money can best be understood by setting them in the order of "narrower to wider," after this fashion:

Money:

- (1) Coins, stamped and issued by authority.
- (2) Coins and gold (and sometimes silver), whether coined or not.
- (3) Coins, bullion (uncoined gold and silver) and paper-certificates for actual bullion.
- (4) Coins, bullion, certificates, and all paper-money authorised by government.
- (5) Coins, bullion, certificates, authorised paper-money, cheques.
- (6) Anything that is actually used as money: "money is that money does."

This list follows almost exactly the order in which trade, and the money-affairs accompanying trade, have developed.

What exactly is the part that money plays in our human societies?

What do men want it to do? and what actually does it do? These two questions are not the same. For the first of them, men want money to be :

- (1) A general purchasing power ;
- (2) A medium of exchange. (This is almost exactly the same as No. (1).)
- (3) A measure of the relative values of different goods and services ;
- (4) A measure of the relative values of the same goods at different times ;

No. (3) and No. (4) together may be put together as No. (3, 4). A standard of Value ;

- (5) A store of wealth, or a store of purchasing power.

To what extent does money meet these demands? It meets No. 1 and No. 2 very well, the chief improvement needed being a money acceptable throughout the world. Gold and silver money, so far, have been the most successful attempts at world-money.

No. 3 is very well met, except for the drawback of each country having its own system. Here again a world-money is needed for further perfection.

No. 4 is the most tragic failure of our monetary systems. The most remarkable thing about money of all kinds in different ages is the fact that its value changes very greatly indeed.

No. 5. is the aim of the miser and the hoarder. But when money is taken out of circulation to be hoarded, it ceases, for a long or short time, to be "current." It is no longer currency, and while it is hoarded it cannot be wanted as money at all. But, on the other hand, coins stored in a box for a year, a month, a day, may be brought out and spent at any moment. Therefore a store of money can really be a store of purchasing power to the man who hoards it ; and it may gain or lose in purchasing power while it is so hoarded.

Money, then, more briefly, acts successfully as :

- (a) A medium of exchange (or, a general purchasing power) ;
- (b) A measure of values-in-exchange at a given time ; and much less successfully as
- (c) A measure of values-in-exchange at different times.

The word value often occurs in Economics, having whole chapters devoted to it. For our present purpose, it will be sufficient to make clear two meanings of the word that may easily be confused, but that are best kept distinct, for confusion between them easily leads to errors and quarrels. The two meanings are generally expressed by the phrases " Value-in-use " (or utility value) and Value-in-exchange.

The air we breathe illustrates the distinction very well, Its value to us is enormous, since it is necessary for life. To be deprived of air for a few minutes means death. How much, then, would not a man give for an hour's use of the air, if he were in grave danger of being deprived of it ! Yet air has no price, while soap and cigars, which are not essential to life, have definite prices. The explanation is that air (in nearly all cases) is present in an unlimited supply. Only when the supply of a thing is limited does it have a price. Only then can it be exchanged for other goods, or for money. So cigars and soap have an exchange-value as well as a use-value. Air, as a rule, has no exchange-value, in spite of its use-value being so great. When air is liquefied, however, at once it has a value-in-exchange, for liquid air is not to be had in unlimited quantities, and it is in demand for several purposes.

It should now be clear that " value " in money matters, will always mean value-in-exchange. Money as a measure of value means measurement of exchange-values. Values-in-use cannot be expressed in money, and so it

is sometimes said, and rightly, that the highest values have no price. In economics an attempt is made to avoid confusion between the two meanings by this arrangement.

*Utility* = value in use, or utility-value.

*Value* = value in exchange, or exchange-value.

Nothing has economic value (exchange-value), unless (1) it is in demand, and (2) is limited in quantity.

### Two Groups of Things

I.	II.
for which there is No Demand.	(a) for which there is a <i>Demand</i> .
	(These things are Goods, or Commodities.)
Unlimited in Supply.	(b) Limited in Supply.
Utilities having Use-Value but no Exchange-Value. Not marketable.	(c) Economic Values having Exchange-Value as well as Use-Value. (much, <i>e.g.</i> corn, or little, <i>e.g.</i> paper money) *
May not be reckoned as Economic Goods at all.	(d) Economic Goods.

The early forms of coin were lumps of metal (generally gold or silver), and their value was measured, as it is still, by weight. The lump was at a later time marked with a stamp, to guarantee its purity and its weight. Flat coins, stamped on two faces, were the next development. Milled edges were introduced to prevent clipping and paring the edges—an improvement that England borrowed from France. The whole story, from the first use of coins in the East (in Lydia, it is thought to be, about 600 B.C.) covers about 2,500 years.

The English pound sterling was in Saxon times a

\* Use-value can be almost nothing: but even the most worthless paper-money is useful for lighting a fire.



pound weight (troy) of silver. A twentieth part of this was a shilling; one two-hundred-and-fortieth part was a silver penny. Gold coins, side by side with silver, were in use from the time of Henry III. In 1816 an Act was passed declaring that for payments of over 40 shillings, gold was to be used. This fixed gold as the "standard" money. From this time on, silver and copper coins became "token money." That is, they circulated at a value fixed by government, not according to the value of the metal they contained. So, if they are taken into the country of another government, they are worth their weight in metal, and no more.

For a century before 1816, the English Mint was open to turn both gold and silver into coins, free of charge. This use of a double standard is called bimetalism, but for a properly working bimetallic system, there must be a fixed proportion between gold and silver coins. Before the year 1816, the British guinea varied so that it exchanged sometimes for twenty and sometimes for as much as thirty shillings. Guineas were not coined after 1816. In that year gold only became the standard, and the new gold coin was the sovereign.

The British sovereign is not made of pure gold, for the metal is rather soft, and wears away easily. To harden it eleven parts of gold are mixed (alloyed) with one part of copper. This is sometimes expressed as 22-carat gold (22 parts of gold to 2 parts of copper), or standard gold. The sovereign of standard gold weighs a little over  $123\frac{1}{4}$  grains (troy), and its price at the Mint is £3 17s. 10½d. per ounce. However, gold for coining is not usually sold directly to the Mint, but through the Bank of England. The Bank is compelled by law to buy all the gold offered to it at £3 17s. 9d. per ounce. The Mint will pay the higher price, but it will not give coins for bullion at once, as the Bank does. Dealers in bullion generally consider that the time saved is worth the charge of 1½d. per ounce.

This extra  $1\frac{1}{2}d.$ , then, is not a charge for coining. There is no charge for coining at the British Mint, but in some countries there is, and it has a definite name, *brassage*. The French Mint charges four centimes on every 20-franc gold piece coined. Another word commonly used in connection with coinage is *seigniorage*. This is the profit that a government makes on its token coins, or "*billon*." This profit is quite considerable. It is a very long time indeed since the silver in a shilling (except for a while, in 1919-20) or the copper in a penny was worth the "face value" of the coin. On the other hand, the government pays the cost of replacing worn coins, from time to time. Thus, in the year 1914, £606,536 worth of worn silver was withdrawn from circulation, and new coins issued. But as over six million pounds worth of new silver coins were issued in that year, the profit was greater than the loss, for the "value" of the silver coins issued was much greater than the cost of the metal and the cost of coining combined.

Governments have sometimes "debased" the coins by reducing the amount of the precious metal in them and using them at the same "face values" as before. The Tudor sovereigns played this trick more than once, and the country's trade suffered for it.

In the case of token coins, little harm follows, except in the encouragement of unlawful coining. (For if, for example, there is only 6*d.* worth of silver in a half-crown, coiners are tempted to make coins equal to the legal half-crowns, and pass them at a profit.) But if the standard coins of a country are debased, business is made uncertain, and foreign trade more especially is injured. Perfectly good coins may suffer a loss in value through wear and tear, but this is called deterioration, not debasement.

Before the reign of Queen Elizabeth the coinage became so bad, chiefly through the deliberate debasement of the Tudor monarchs, that a new issue was

made in 1560. It was in those days, when people were accustomed to seeing coins of different values in use at once—some pared and clipped, some badly worn, some debased when they were first issued, that “Gresham’s Law” appeared. The name comes from Sir Thomas Gresham, a London merchant, the founder of the Royal Exchange. He assisted in the issue of the new coinage of 1560. The law simply says : Bad money drives out good money. The explanation was this : When people wanted the gold in the coins, either for storing up, or for melting (by goldsmiths for example) or to buy goods from foreign countries, they kept for these purposes the best and heaviest coins, and paid out the inferior coins for their purchases at home. Thus the good coins rapidly disappeared, while the bad ones remained in circulation. This only takes place, however, when there are bad and good coins in use together, and passing at the same value. The working of this law was known before Gresham’s time. A Greek writer, Aristophanes, mentioned it in connection with coins and also with men, as early as 405 B.C.

“ It has often struck our notice that the course our city runs  
Is the same towards men and money. She has true and worthy  
sons :

She has good and ancient silver, she has good and recent gold.  
These are coins untouched with alloys ; everywhere their fame is  
told ;

Not all Hellas holds their equal, not all Barbary far and near  
Gold or silver, each well minted, tested each and ringing clear,  
Yet, we never use them ! Others always pass from hand to hand  
Sorry brass just struck last week and branded with a wretched  
brand.

So with men we know for upright, blameless lives and noble names,  
Trained in music and palæstra, freemen’s choirs and freemen’s  
games,

These we spurn for men of brass, for red-haired things of unknown  
breed,

Rascal cubs of mongrel fathers—they we use at every need ! ”

(*The Frogs* : Gilbert Murray’s translation.)

The prejudice against red-haired men from Northern

Europe is curious, but if we set that aside, we have a kind of Gresham's Law of men and money very well set out. But bad money only drives out good where it pays better to hold back the good for special purposes, as in the case of light and heavy coins, mentioned above. In the long run, the opposite of the law is true : bad money has a short triumph, good money a longer and more lasting one. And as with money so with men.

### Credit

Although gold and silver have most of the marks of "a good form of money," yet the business world has replaced them to a very great extent by an immense system of credit. Very wealthy men to-day scarcely touch or see gold and silver in their dealings. A system of documents and of book-keeping has replaced the handling and exchange of gold. Some of these documents are counted as money :

- (1) Bank notes and currency notes.
- (2) Cheques.
- (3) Bills, notes, and certificates of several kinds.

This credit system works through banks and stock exchanges. Between different nations, it works also through what are called the foreign exchanges. The reckoning is all done in money values, but the total of the world's dealings through banks and exchanges is so great that by comparison the world's total store of gold and silver is very small. We shall need a separate chapter to give even a slight sketch of the system.

## CHAPTER VI

### CREDIT AND PAPER

**I. Banks, Cheques, and Bills.**—Dealings between men, whether in trade, commerce or government, are founded upon confidence. The system of credit, with its paper documents, banks, and stock exchanges is founded upon confidence, and when confidence begins to fail, the system fails. The same need of confidence runs through most of the social life of men ; confidence is the sure basis of all government.

In these chapters we shall sketch out the credit system, taking into account paper money, banking, the stock exchanges and the foreign exchanges.

Paper money was used in the East some centuries earlier than in Europe. The famous Venetian traveller, Marco Polo (born 1254, died 1323) tells of the Chinese using " paper " money of bark. He thought this to be mere childishness, but it showed China to be in advance of Europe. We may trace the rise of paper money in England through (i) the London goldsmiths and (ii) the Bank of England.

(i) Long after public banks had been in use in Italy the only safe place in London for money to be stored was the Mint, originally inside the Tower. But when Charles I. " borrowed " about £200,000 of this money, merchants turned to the goldsmiths, who for the purposes of their own trade had to arrange for safe storage. When a merchant lodged a store of money or precious metal with a goldsmith, he received for it a receipt ; and after

a while these receipts began to be used in making payments. The merchant would write an "order" to the goldsmith to pay over his deposit of silver to a person named (and, at first, known to the goldsmith and the merchant). Very soon these "goldsmith's notes" began to be used as a form of paper money. The goldsmiths, finding that they always had "on hand" far more money than was ever likely to be called for, began to lend some of it out at interest. That is, they acted as bankers.

(ii) The Bank of England was established (1694) chiefly as an arrangement to help the government of William III. to borrow money for war purposes. It lent £1,200,000 to the government, and was permitted to issue notes to that amount. The Bank received from the government, interest on the sum borrowed at 8 per cent.

The most important event in the history of the Bank of England was the Bank Act of 1844.

Its chief points were these :

(1) The Bank must carry on two parts of its business quite separately : (a) issuing bank notes, (b) the ordinary banking business that all banks are engaged upon.

(2) For all notes issued above a total of £14,000,000 (owed to the Bank by the State) the Bank must have actual gold and silver in its cellars.

(3) The Bank must buy gold to any amount at £3 17s. 9d. per ounce ; it must sell gold to the Mint at £3 17s. 10½d. per ounce.

(4) No other Bank within sixty-five miles of London was to issue notes. (Many banks at that time issued their own notes, but this has steadily decayed.)

(5) Bank of England notes were "legal tender" in England and Wales.

The Bank of England carries on three branches of business :

(1) It issues notes.

(2) It manages the National Debt accounts

(The National Debt on March 31, 1924, stood at £7,680,000,000.)

(3) It carries on the ordinary business of a bank.

The ordinary business of a bank is somewhat varied. A modern bank has the following activities :

(1) It receives deposits of money, for which it may give interest (" deposit account ") or may give no interest (" current account ").

(2) It repays the amounts of deposits on demand.

(3) It buys debts, and collects them when they are due.

(4) It lends money at interest.

(5) It takes charge of valuables for its customers.

(6) It enables men to carry on their business with little or no actual use of money.

These activities of a bank can be made clearer if we follow the career of a Mr. A. commencing business with a shop or factory. He visits a neighbouring bank, and when he has satisfied the manager that he is a reliable man, he " opens an account." He pays into the bank, let us say, £1,120 in notes, bills, cheques—there need be no coin whatever in the transaction, and usually there is little or none.

It is a " current account " that he opens, for which the bank will pay him no interest. The advantage to him lies in the conveniences that the bank offers. He is now " credited " with £1,120 in the bank's books ; he is given a " paying-in " book, and a cheque book. For this last he is charged for the 2*d.* stamp on each cheque. If it is a book of 50 cheques, the Bank enters 8*s.* 4*d.* against him. He has now £1,120 less 8*s.* 4*d.*, and a cheque book.

Day by day, or week by week, he pays into the bank the cheques and money he receives (unless he has immediate other use for it). Day by day he pays for all except his small expenses, not with coin but by writing a cheque, and giving it in the place of coin. The cheque is really

an order to his bank to pay a sum, let us say £54, to Mr. W. Smith, out of his £1,120. This cheque Mr. Smith will pay into *his* bank, which may be in another town. Mr. Smith's bankers will add this £54 to the "W. Smith account," just as if Mr. Smith had paid in that amount in notes and gold; and they will collect the amount from Mr. A.'s bank.

The collection is not done in money or notes, however, but through a Clearing House. Mr. Smith's bank will have many such cheques to collect from Mr. A.'s bank, and Mr. A.'s bank will have many to collect from Mr. Smith's. For example :

Mr. A.'s bank has a total of £785 10s. to collect from Mr. Smith's bank.

Mr. Smith's bank has a total of £722 5s. 6d. to collect from Mr. A.'s bank. So Mr. Smith's bank has the difference of £63 4s. 6d. to pay to Mr. A.'s bank.

The payment is made in this manner. The banks themselves have a banking account in the Bank of England. Mr. Smith's bank writes a cheque, ordering the Bank of England to take £63 4s. 6d. away from their account and add it to the other bank's account. The whole process is a matter of book-keeping. When we consider that a large number of banks are engaged daily in "clearing" cheques in this way, it is plain that the great mass of cheques simply cancel each other out.

A cheque, then, is a written order, by A, to a Bank, B, to pay a certain amount to C (or to S, Mr. Smith). It is very convenient for business uses for these reasons :

- (i) It avoids the constant handling and counting of coins.
- (ii) It can be made for odd amounts of money, such as £17 11s. 5d. (half-pennies are avoided).
- (iii) It can be used as money.
- (iv) It can be sent safely through the post.

In order to secure this last advantage, "crossed cheques" are used. When Mr. A. sends a cheque to



Mr. Smith, in payment for goods he usually draws two lines across the cheque, and writes "& Co." between them. If such a cheque be stolen, it is useless to the thief, for a crossed cheque can only be "paid in" by some one who has an account at a bank. No one can get cash for it across the counter of a bank. But, it might be said, what if the thief had a banking account? Then, if he were so foolish as to pay it into his bank, he would run the very great risk of the affair being discovered through the usual process of the bank and the clearing house. The risk is so serious that it is very rarely taken.

Whoever receives a cheque drafted for him writes his name across the back of it. Mr. Smith does so in the case above. He will then, probably, pay it into his bank, as we have seen. But he may use it in another way, to pay Mr. Thompson. He owes Mr. Thompson, we will say, £32, and this cheque is for £31 5s. He gives the cheque together with 15s. and clears his debt. Mr. Thompson, in his turn, may pay the cheque into his own bank, or may use it, as Mr. Smith has done, to pay a debt. At last the cheque comes into some bank or other. But it must come in "endorsed" by having across its back the signature of the person to whom it was made payable in the first instance. Cheques, then, pass from hand to hand in the place of money, and have very largely replaced the use of coin and bank notes. The cheque is a form of paper money which has been slowly "invented," without any one deliberately trying to invent it. Like the famous Topsy in *Uncle Tom's Cabin*, it "grewed."

The cheque is descended from a more ancient kind of business document—the Bill of Exchange. Cheques, however, are dealt with through banks, but bills of exchange were used before there were any, or at least many, banks. The bill of exchange concerns at least three people, A, B, and C. Of these, C owes A some money or he has in his charge some property of A's,

whether in the form of money or not. A buys something from B, or in some way becomes indebted to B. He says to B, "C owes me a good sum. I will write an order to him to pay out to you what I owe you." This written order is a Bill of Exchange. In modern times, the bill must be stamped according to law. Also, the date when C is to pay to B the amount mentioned is written down as well as the date when the bill is signed. Let us now follow B, to whom the bill is given. He holds a document by which he can get from C the sum of £1,000, let us say, six months ahead. He may keep it for six months, present it to C, and be paid. The transaction is then over.

But in business affairs, six months is often a very long time. B may have many bills, and he may need to make some payments of his own next week. In such a case he can "sell" the document, probably to a bank. But in that case he will not get £1,000, for the bank will charge him for giving cash now, while itself having to wait till the bill falls due. This is "discounting" a bill. What is called the Bank Rate is the percentage charged by the Bank of England for discounting good (safe) bills. It is now (1924) four per cent. per annum. From what we have said about interest, it should be clear that discounting is only a way of reckoning interest.

These bills of exchange are very largely used in commercial affairs, and they are the chief form of "money" for settling transactions between people in different countries.

Bills of exchange are the oldest form of commercial document; and for wholesale trade they are the most important. Bank notes and cheques are only special varieties of the bill of exchange. A cheque is a bill of exchange "drawn on" a banker; and it is payable on demand. A bank note is a bill of exchange *issued* by a bank; and it also is payable on demand. Other bills

of exchange are business documents payable at a certain date mentioned in the bill, but neither drawn on a bank nor issued by a bank.

For all these transactions, three persons are necessary : A, who writes an order to B ; B, who is prepared, on receiving a written order from A to pay the amount of the order to C ; C, who collects from B what A owes him. The bill may pass through many hands from the time when C receives it until the time when B “ cashes ” it.

## CHAPTER VII

### CREDIT AND PAPER

**II. Paper Money.**—The civilised world has had its attention drawn lately to the question of paper money. In particular, the fall in value of the German mark from 20 (for £1) in 1913-14 to 18 billions \* (for £1) in 1923, has made us aware of the uncertainty of money standards. Such a fall results from a loss of confidence, for all human dealings are finally based on confidence. In the case of Germany, the confidence necessary to preserve the value of the mark was a belief, within Germany and without, that the country would recover from the effects of the War, pay its debts, and resume business like a merchant who for a while is in difficulties, but who will recover and flourish by and by. That confidence was of course weakened by Germany's defeat in the War. But the weakening went so far as to be fantastic. Ten years ago a mark was worth just a little less than a shilling. It was worth early, in 1924, about one-billionth \* of a shilling. A silver coin to represent this value, if it could be made, could only be examined under a microscope. It is natural to ask, first, why we should not simply say that the mark had then no value at all ; and secondly, why the mark seems to have fallen even more, proportionally, than belief in Germany's ability to recover.

\* A billion is reckoned, in England as a million millions ; on the Continent and in U.S.A., as a thousand millions. In relation to German marks, most writers (English and others) follow the German method. (See note at end of chapter.)

The answer to the first question is that in a modern nation such as Germany, people must have some kind of money, bad or good, to buy their food, pay their rents, and so forth. The only available money was in paper marks; and bad as these were, they had to be used. To the second question, the answer lies in the nature and the danger of paper money. (See note at the end of this chapter.)

All the European Governments concerned in the War spent more upon it than they possessed. To meet the enormous expenses of the War, Governments had open to them these sources of payment :

(1) The profits of Governments' businesses, such as the British Post Offices, the German State Railways.

(2) Saleable possessions, belonging to the State.

These two sources must be mentioned, but they could supply only a trifle of the enormous amounts needed.

(3) Money raised through taxes of different kinds.

(4) Money borrowed from private lenders, in return for promises of the Government to pay interest on the money lent, until it was repaid.

(5) Compulsory seizure of the wealth of private persons.

Now, if we rule out the last of these ( which was used in Russia after the second revolution, November, 1917, but not as a war-measure) and the first two, we have left the two great sources on which the Governments relied : taxing and borrowing. Whether a Government should raise its money chiefly by taxing or by borrowing; in what proportions it should do both these things; whether it should do one only, and not the other, are questions of politics and of right and wrong action. We shall not deal with them here.

Every Government, however, controls the currency of the nation. In particular, it controls the issue of paper money. For buying abroad, the paper money of a nation is only acceptable if the traders of other nations

have confidence that it will keep its value. When that confidence is shaken, as happens in the unrest of war, paper money will not be very readily accepted abroad. Most foreign purchases will have to be paid for in some other way.

One of these ways was for the British Government to buy from British people certain possessions called generally "foreign securities." Thus, for example, Englishmen held shares in American mines and railways. These they sold to the Government, and with them the Government bought munitions from American firms. But when the British Government bought these securities, how did it pay for them? Not with gold, for all the gold was needed to make other purchases abroad, and to keep a store in the bank of England as a basis for trade and exchange. The payments were made in cheques, Government stock (such as War Loan certificates) or in bank notes. The second of these consisted of promises to pay interest until the Government repaid the whole amount in cash. The third took the place of cash: it was sometimes called simply, cash.

Many new bank notes had to be printed, and, in addition, £1 and 10s. currency notes were printed. They were not only needed for this purpose, but for the exchange of general trade. During the years 1914-1920 there was great trade activity, and therefore there was need for great quantities of money. The Government paper money was "legal tender" to any amount, and people did not hesitate to accept it, because they knew that they would have no difficulty in exchanging it for shillings or food or a doctor's services.

The Government, therefore, would buy £100 worth of goods by printing a hundred £1 notes. These were "legal tender" inside the country. It seems as if the Government might have made all its payments in this fashion: it only cost the price of making a special kind of paper and printing on it in a special way. Why not

make unlimited quantities of money? Great quantities of this paper money were in fact made by all the Governments concerned, especially at one time, by the Russian Government, and at another time, by the German Government.

But, as the paper money was issued in greater and greater quantities, other things were happening. The first and greatest was this, that as the supply of paper money increased in quantity, it fell in value, simply because it was becoming so plentiful. One of the widest and simplest laws in Economics is the Law of Supply and Demand:

In a free market (that is, where there is competition), an increased supply will lead to a fall in price; an increased demand will lead to a rise in price—if other things remain the same.

There are points here to be kept in mind. In the first place, in the world of business, "supply" means a supply of so much at a certain price. For demand it is the same. There is a certain demand for bicycles at £10 each. There would be a greater demand for bicycles at £5 each. Bicycles will be supplied at £10, but not at 10s. however "great" may be the demand. Supply and demand, then, are questions of price.

In the second place, increases of supply and of demand may check each other, and leave prices nearly or quite unchanged. Thus, an increased supply of boots in a free market will lower the price of boots. This will increase the demand for boots. But at the same time other causes, such as a wet season, or changes of fashion, may increase the demand for boots still more. The price cannot both rise and fall at the same time: but if the doubly increased demand is enough to put up the price by 10d. a pair, and the increased supply is enough to put down the prices by 9d. a pair, then the price will rise by a penny (10d. - 9d.).

When prices fall, demand will increase: but not in

proportion. If the prices of gramophones were halved, the demand for gramophones and the sale of them would probably be more than doubled. But if the price of bread were to be halved, the demand for it would probably not be doubled. People would not eat twice as much bread as before. This is expressed by saying that the demand for bread is not very elastic. It does not increase or decrease very greatly as the price falls or rises. That is natural enough, for each family needs a certain amount of bread, and is not likely to try to eat six times as much, even if six times their usual quantity could be bought for what they now pay. A housewife, hearing that the amount of salt she buys for sixpence can be bought for a penny, will not buy six times her usual supply. She will probably buy no more than her usual quantity, and buy other goods with the remaining fivepence, unless she decides to save that money for the present. Her demand for salt will show no "elasticity" whatever. This is because her demand for salt is already thoroughly satisfied, "satiated." She has all the salt she wants, week by week, and has no use for a further increase. But there are many things of which she has not by any means as much as she wants, week by week. A fall in the price of tea, or sugar, or dried fruits, or milk, or butter, will very likely tempt her to spend more on these articles, since she and her family are not "satiated" by their weekly supply of them.

Wealthier men or women might be "satiated" with such goods, and therefore would not be tempted to buy more tea or milk by a fall in price. Their demand for these articles would be inelastic. A fall in the price of cigars, wines, furs, game, however, might easily tempt such persons to an increased demand. The differences of elasticity in the demand for different articles depend on the income of the persons from whom the demand comes, because that settles the kind of articles with which they



are fully supplied, and the kinds of articles of which they have not yet as much as they desire.

All this is important in matters of economics, for demand is the driving force in economic affairs. It must be, however, what is called "effective demand." The demand of a poor man for motor-cars is not effective, for he cannot buy motor-cars. His demand is really desire. But effective demand, or demand in the economic sense, must have not only the desire to buy, but the will and the means to buy, at the prices at which the goods are offered. Desire, will, and means, constitute effective demand.

Now, there was a demand for money, during the years 1914-1920, for ordinary business; for increased trade due to war activities; and for the purchase of foreign securities. How was a Government to judge when the supply of paper money was becoming greater than the demand? Plainly, by the paper money showing a loss in value. That loss is shown when £1 will no longer buy the goods it used to buy. We may say (1) that money is then losing value, or (2) that the purchasing power of the sovereign is falling, or (3) that prices are rising. A fall in the purchasing power of the sovereign can be described by thinking of the sovereign. It can also be described by thinking first of the goods bought. In that case, we say prices are rising to describe that the value of sovereigns is falling. If Governments issue any great excess of paper money, prices will rise.

As a matter of fact, all the European Governments, our own included, issued so much paper money as to cause prices to rise. This was not the only cause of the rise, but it was a very important cause. When money falls in value through an excess of issue (and this is nearly always in the form of paper money) the state of affairs is called inflation. Bringing prices down by reducing the supply of money is called deflation.

If paper money is seen to be steadily falling in

purchasing power, people only want to get as much of it as they need for immediate spending. They do not want to store it up, unless they have a firm belief that it will rise again fairly high. Also, if people are to be paid in a falling money, say six months or three months ahead, they will ask for much more of it, to allow for the fall in value six or three months from now. "You will pay 10,000 marks in six months' time? But it looks as if 10,000 marks then will only be worth 6,000 or 5,000 marks or less. Give me 10,000 marks now, or 20,000 in six months' time." Now, a great deal of the world's trade is done through payments made a month or several months later; so traders, to protect themselves, demand great increases. Fear of a fall causes a demand for more paper money, and so helps the fall. In August, 1923, printer's wages at Leipzig were fixed by agreement at 54 million marks—over £2. When the first week's wages were paid, the 54 million marks were worth about 22 shillings.

Paper money is issued through banks: in the case of Germany, mainly through the Reichsbank, which partly corresponds with the Bank of England. It is the business of a National Bank of any kind, not to hinder, but rather to help, the trade and industry of the country. From this point of view it was but natural that the great German firms should be able to borrow freely from the National Bank, the Reichsbank; and so also should the ordinary banks. But the tremendous fall in the value of the mark in 1923-1924 made this arrangement very profitable to such borrowers, but very costly to the nation. The mark, which before the War was about 20 to the £1 sterling, made these amazing movements:

				Marks to the £1
1918 (Dec.)	..	..	..	70
1920	„	..	..	257
1921	„	..	..	300
1922 (Sept.)	..	..	..	9,000
1923 (May)	..	..	..	200,000
1923 (Dec.)	..	..	..	18,000,000,000

Now, whoever borrowed a million English pounds' worth of marks in December, 1921, would owe the Reichsbank 300 million marks. By September, 1922, he could pay his debt with one-thirtieth of what he had borrowed. The fall from 1922 to 1923 was still more fantastic; much greater gains were possible, and many such were made. Great borrowings from the Reichsbank took place. The Invasion of the Ruhr by French armies (Jan. 11th, 1923) made the Reichsbank, for patriotic reasons, very ready to lend money to support the German workers in their refusal to work under French control. This meant the manufacture of still more paper money. The fall of the mark between 1914 and 1922 (20 to 9,000) big as it was, seems a trifle when during one year, 1922-23, the mark fell to thousands of millions.

Paper is evidently a very dangerous kind of money, since Governments are easily tempted to issue great quantities of it. Before the War, this was as well known as it is now, but it was thought that the Governments of modern states were too well aware of the danger to fall into it. Nevertheless, they did so fall, and may do so again. War is a great encourager of recklessness.

Paper money can be of many different kinds, but there are two sorts of paper money that must be kept in mind whenever the danger of this form of money is considered: convertible and inconvertible. Convertible paper money can readily be exchanged for coin. Between 1797 and 1816, and again between 1914 and the present time, paper money issued by the Bank of England became difficult, or even impossible, of conversion into gold. Conversion was prevented, in the first period, by "suspending the Bank Act." The Act of 1844 set a limit on the amount of paper money to be issued. From 1797 to 1816 there was no limit. (The period is that of the Wars with France.) In the second period (after 1914), currency notes were issued by the Treasury, to take the place of sovereigns and half-sovereigns. The Bank Act of

1844 was suspended, but (1) the Bank of England checked borrowing by charging a higher discount rate of interest for the money it lent ("raising the Bank rate"); (2) the export of gold and the melting down of gold coins were made more difficult. These two actions together with the issue of currency notes, made it possible to keep bank notes and currency notes "convertible," though this also was discouraged. It was not legally forbidden. Thus, although the Bank Act of 1844 was "suspended" (August, 1914), giving the Bank of England the right to issue paper "in excess of any limit fixed by law," Bank and currency notes never became completely inconvertible.

*Note.*—German money. In October 1923, a new currency was established under the direction of Dr. Schacht. The new Rentenmarks in German advertisements (July newspapers), showed such prices as: blouses, 3, 5, 12, 19 marks; stockings, 1 to 2 marks; gloves,  $\frac{3}{4}$  mark (75 pfennige) to  $4\frac{3}{4}$  marks. The Rentenbank of issue completed its first year (October 15, 1923, to October, 1924) satisfactorily. The Rentenmark, fixed on the basis of one Rentenmark to a billion papermarks (1923 value), has steadied prices in Germany. But it is almost entirely an internal currency, and has not been severely tested in the Foreign Exchange market.

## CHAPTER VIII

### CREDIT AND PAPER

#### III. The Stock Exchange and the Foreign Exchange.

—Economics concerns itself with men satisfying their material wants. These wants are satisfied by utilities of two kinds, goods and services ; and of these economics deals more particularly with such as have exchange value. Thus we get the parts into which many works on economics are divided :

1. *Production*, concerning the making of goods : the production of services is little dealt with.

2. *Exchange*, dealing with price value, and the way that goods are exchanged for one another.

3. *Distribution*, under which head comes the burning question : How ought the products of men's labour to be divided ? mingled with the practical question : How are they in reality divided ? The first of these questions belongs to ethics, morals or politics ; but it is so vital that almost every economist touches upon it.

4. *Consumption*, dealing with the final use of goods, when they are consumed or enjoyed. On this economics has not very much to say.

Our inquiry into money and prices has turned our attention chiefly to the second section, Exchange ; and in this chapter we shall still be dealing with it. In life, production, distribution, and consumption are more important than exchange, but in the description of these things exchange demands most words, because it is elaborate.

It is not a fortunate thing, either, that selling wheat should be more profitable than growing wheat, that salesmanship should outgrow craftsmanship, that financiers should generally be much better rewarded (in money) than farmers. The "machinery" for the exchange of goods, with its moneys, banks, clerking, book-keeping, company formations, stock exchanges, and so forth, seems to employ an excessive share of men's energies. But, until men can make it simpler, it remains important, elaborate, and, for the world as a whole, costly.

The most important parts of this machinery that we have still to mention are the Stock Exchange and the Foreign Exchanges.

### The Stock Exchange

The London Stock Exchange came into existence with the National Debt. It began with the agents who dealt for Dutch people investing in the debt. When the East India Company was founded (1600) and then the Hudson Bay Company (1670), shares in these companies were also dealt with.

At first, the dealers in stocks used the Royal Exchange, but the merchants drove them out (1700). For a generation they had no place of business; and a coffee-house became known as the Stock Exchange. The present building in Capel Court was taken over in 1802. In these matters, Italy and Holland preceded England, Italy (Venice) making her beginnings in the twelfth century.

A writer on financial questions says that competent judges consider ninety-five per cent. of Stock Exchange transactions to be speculations, only five per cent. being "*bonâ fide* business." This "*bonâ fide* business" is to buy and sell shares, stock, and investments of money, for people who want them, or who want to dispose of

them. Speculation is arranging to buy (or sell), at a future date, on prices fixed now, and in the hope that a fall (or rise) of price will give a profit on the transaction.

The London Stock Exchange is a private company, all the members being shareholders. The active members are jobbers (or dealers), brokers, and clerks. It is the stockbroker who acts as an agent for persons "outside" who wish to buy or sell stock. A man with £5,000, we will say, wishes to invest that money in British railway shares. He instructs a broker to act for him, perhaps saying he is unwilling to pay more than so much per share, perhaps leaving the broker to get the best possible bargain for him. The broker, or his clerk, goes to one of the jobbers who deals chiefly in railway stock ("Home Rails") and asks him to name a price for, we will say, ordinary shares in X Railway Company. The jobber names *two* prices : say  $87\frac{1}{2}$  and 88. He will sell the stock at 88 or buy it at  $87\frac{1}{2}$ . The difference is called the jobber's turn, and it is through the working of this difference that the jobber gets his income. The broker is paid according to a fixed scale of charges, for each kind of stock, drawn up by the Stock Exchange.

The jobber is constantly agreeing to buy stock which he does not intend to keep, and to sell stock which he has not got. The sale may be for cash, as in the case we have taken, and then it is likely to be carried through and completed in a few days. But many deals are not for cash but for the account, to be settled later. There is a settlement every fortnight ; and if the parties are not prepared then to complete the transaction, it may be put off by what is called a "carry over," upon a rate charged, to the next settling day.

This is but a slight sketch of what is now a very elaborate system. It should be plain that the Stock Exchange is necessary and useful, so long as there are companies, loans, stocks, and shares, and so long as people wish to buy such shares, or sell them, or to invest

their money in profit-making concerns. It should be plain, also, that in such a system, where prices are constantly changing, there are great if risky chances of making sudden profits; and therefore, a constant temptation to speculation.

Outside London, there are Stock Exchanges in each of the principal towns.

### **The Accepting and Discount Houses**

There are over a score of firms in London whose business it is to "accept" bills of exchange. When the possessor of a bill wishes to get money for it, he usually pays a small fee to an Accepting House to "accept" it. It is the business of these houses to recognise good bills, and banks, relying on the special knowledge of the acceptors, very readily discount their bills (*i.e.* pay cash for them).

Discount Houses are also firms that buy bills. They usually keep the bills until the date when they fall due, and then collect the money. Sometimes indeed they sell bills to banks, but this is not their usual practice.

The bill broker, however, buys and sells bills as a greengrocer buys and sells potatoes. He has always a large quantity of bills "in stock," so that banks and firms generally, when they want bills on Paris, or New York, apply for them to the bill brokers.

### **Foreign Exchange**

Most people become well acquainted with the two gold coins, the half-dozen or more silver and bronze coins, the 10s., £1, £5, and £10 notes, used in this country, and find no difficulty in reckoning out 7s. 6d. in "copper" or a £5 and three 10s. notes in silver. Many people, further, are acquainted with cheques.



Business people know how to reckon the cash values of bills of different kinds. Altogether, this makes a fairly complicated system. The complications and the difficulties increase, however, when the coins, the paper money, and the bills of different countries have to be dealt with. This is the concern of what is called Foreign Exchange.

The world's trading could be carried on much more easily and much more smoothly if one set of coins were used in all countries. (Here we need say nothing of having also one set of weights and one set of measures.) So long as each country has its own set of coins, with varying weights of gold and silver in them, alloyed in different percentages, payments between countries will need a good deal of reckoning out.

As far as the gold coins of different countries are concerned this can be worked out by reckoning (1) the weight of the coins (2) the percentage of pure gold in them. Thus :

(a) £1 English gold (sovereign) 123·274 grains weight ; eleven-twelfths is pure gold.

(b) \$10 U.S.A. (eagle) 258 grains weight ; nine-tenths of which is pure gold.

(c) Then £1 is gold in equal to  $\frac{123\cdot274 \times 11 \times 10 \times 10}{12 \times 9 \times 258}$  dollars, or 4·8665 dollars.

(All the figures in this calculation (c) can easily be traced in (a) and (b) above.)

In similar fashion, the values of the gold coins of different countries, as compared with the British sovereign, are worked out ; and the results form what is called the Mint Par of Exchange. The word Mint comes in because the coins are reckoned as of standard weight and purity, as they come fresh from the mint. (See also Appendix.)

Silver coins can be reckoned in the same manner, but as most of the chief trading countries have gold for

their standard coins, a silver par of exchange is of less importance.

A new difficulty comes in, however, when trade is carried on between Europe and America, on the one hand, and Eastern Asia on the other, where silver is very much used. The difficulty lies in the fact that silver is constantly changing its value in relation to gold. A gold-and-silver fixed "parity" is not possible to reckon.

International Trade, however, is carried on largely by bills of exchange, and this brings in a new complication. The bills of exchange, of course, are all of them expressed in the money of the country where they are made out, so that the Mint Par of the different coinages remains as the basis of reckoning, however completely the trading is carried on by means of paper.

The next difficulty that arises is, how is a merchant in Buenos Aires, who has bought goods from a French merchant, and sold goods to an English and a Spanish firm, to pay for his purchases and to get paid for his sales?

The simplest method would appear to be, to send gold coins from Buenos Aires and to receive English and Spanish gold; for gold coins will generally be accepted by the traders of all countries. As a matter of fact, he sometimes (but very rarely) does this. Mint Par tables can be used, and the exact quantity of Argentine gold coins that balance the French merchants' charge of, let us say 10,000 francs, can be shipped across the Atlantic. The few occasions when this is done are of course the times when it is the most convenient way: that is, in trade, the cheapest way.

But more generally the cheapest way is for the Buenos Aires merchant to buy bills of exchange, and to pay the French merchant with them. They must be good safe bills, with the names of firms or merchants on them who can be trusted to pay when the bills fall due. Also

they must be such bills as the French merchant is likely to accept; and this will mean bills that he can conveniently get turned into cash.

The most convenient bills for him will be those payable in Paris, and, of course, he will not care for bills payable a long while ahead. The Buenos Aires merchant, it seems, will have to buy a bill or bills for 10,000 francs, payable in Paris, and payable almost immediately. It is not likely that he will find such bills for sale.

As a matter of fact he does not try to find them. There are bills of many kinds, payable at different times, and at different places, always to be had in the money market. There are Exchange Banks who deal with payments between traders in different countries. There are daily lists of the rates of exchange for bills payable at once ("at sight"), for bills payable in three months' or in six months' time.

The Paris merchant will not trouble himself, in fact, whether he is paid in bills payable in Lisbon or in London, due for payment in three months or in six months; not even if he is short of cash. For he can sell these bills for cash, and allowances will be reckoned in the "price" of the bills, for all differences of time and place and the "par" of different money. Yet he often prefers some bills to others, because he himself owes money for his purchases, and bills are convenient to him for making his payments. He often buys from London merchants, so that he is generally very ready to accept "bills on London." So many people all over the world have trading connections with London that bills on London are in common use.

It can easily be imagined that a great deal of "criss-cross" goes on. Bills on London may be bought by a Buenos Aires merchant to pay a Lisbon merchant; he uses them to pay a debt in New York; the New York firm to buy from Paris; the Parisian merchant to settle a London debt.

The following example describes a simple case of the working of exchange. Bull, of London, buys wine from Pierre, of Bordeaux. Bull is to pay 14,000 francs. Before the War, that would have been over £550, but francs are now "cheap." At the time of the bargain, we will say the franc stood at 70. Bull then owes Pierre £200. In the phrase used (it has been called the jargon of the exchange) Pierre "draws a bill of exchange on Bull and Bull accepts it." In more ordinary language, Bull gives a written acknowledgment that he owes £200 to Pierre. Pierre's London agent presents this bill to a London bank, which in turn accepts it. The document has now been guaranteed by a London bank, and will be accepted as money in business circles generally.

Meanwhile, Jacques of Paris has been buying cottons from James of Manchester. We will take one particular deal, when Jacques bought £200 of cotton. James "draws a bill of exchange on Jacques and Jacques accepts it."

These two bills may pass through many hands. Pierre and James will probably use them in payment for other transactions. But sooner or later they come to the banks of Bull and of Jacques (who all this while owe £200 for the goods they bought), and their bankers will pay for them out of Bull's and Jacques' money lodged at the bank. Bull's money at his bank is reduced by £200, and Jacques' by 1400 francs. The documents have now finished their work, and are cancelled.

There are small charges made on all these transactions and it is partly through such charges that banks, accepting houses, and financial dealers generally, make their profits.

This is a simple case. If we consider the many transactions of merchants all over the world, the changing rates of exchange, the difficulties between coinages, the further difficulties caused by some countries having a gold standard and others chiefly reckoning in silver, with the price of silver constantly changing, we can see

why the foreign exchanges are so complicated, in their practical working, as to be left to experts. The method on which they are based, however, as just described, can be understood by most people, without any great effort.

The Mint Par of Exchange has been called the foundation of the Foreign Exchanges. That is true, but it is the foundation only. In the example we have just taken, 70 francs to the pound sterling (an actual figure in 1924), was the basis of the calculation, not the Mint Par of 25.225 francs. Many things affect the exchanges—the fall of a government, the threat or the reality of war, a change of policy. The greatest part of the fall in value of the German mark has been ascribed by several writers to the policy of the Ruhr invasion. But whether that had a great or small effect, it had an effect, because every political change affects the Exchange.



# PART III

## CHAPTER IX

### COMPETITION AND MONOPOLY

THE economists, and still more the manufacturers, of the early nineteenth century, spoke with respect of the power and of the benefits of free competition. "Competition," wrote a French economist (*Bastiat*), "is nothing but the absence of oppression." Under free competition, the world's wealth would of itself be divided among men, justly, and to the best general advantage. A later French economist (*Gide*) summarises the early argument about competition after this fashion :

1. Man is guided by self-interest. He seeks the greatest possible profit, and this is his driving force.
2. If each individual vigorously seeks his own self-interest, each will produce what is most in demand.
3. Under free competition the efforts of each are checked by the efforts of others. They have to underbid each other. That means cheap goods.
4. Thus the *general* interests of all are served by the intelligent "selfish" interests of each one, acting with no thought but for himself.

This argument (here altered and expanded from *Gide's* account), is not so heartily supported to-day as it was a century ago. It depends entirely upon the idea of free competition. It does not allow for any kind of monopoly advantage coming in. We might put the argument thus :

- (1) If complete free competition could be secured ;
- (2) If all started equal, except for natural advantages ;
- (3) If every one sought his own private interests ;
- (4) Then for a generation, men's wealth would become roughly proportioned to their abilities in economic affairs. (Not to their general abilities. Milton and Newton would not do so well in earning wealth as Watt or Nathan Rothschild. They were all able men ; but their abilities in economic matters were very different.)

The argument for competition was easier to believe in, heartily, a century ago than it is to-day, for before men's eyes, new industries and new inventions were rapidly springing up, and unknown men were becoming wealthy through them. The argument seemed to leave out the effects of inherited wealth, privilege, and the advantages of birth. It did not, in fact, forget these things, but it ruled them out by saying "under free competition." The "liberal economists" at that time wanted to prevent monopolies of any kind, of birth or inheritance, excepting only the natural inheritance of ability. Inside their argument, they were fairly correct in their description.

They have been blamed for saying that men act for self-interest. But that is true. They went wrong, however, when they spoke as if men act *only* for self-interest : and that is not true. The writer mentioned above, Charles Gide, points out that the chief critics of the "competition economists," the Socialists, "have no desire, as we might imagine, to substitute social interest for self-interest. All they want is to prevent the interests of the whole from being sacrificed to the interests of a small number. But they consider that individual ownership results simply in hindering the development of individuality—at all events when it is based upon capital and the wage system—and that is why they demand the abolition, or, as it is called, the socialisation of ownership."

The desire to compete, like the desire for war, the



desire for peace, the desire to work, the desire to rest, has its roots in a natural craving. We see it illustrated in cricket matches, races, class-lists in schools, party contests in politics—in a hundred ways. But these emulations are not quite the same thing as economic competition. That, according to the earlier economists, was to be the chief method of economic progress, by which they generally meant an increased production.

Increased production, however, may mean more than one thing. It may mean (1) a total increase, or (2) an increase per head of population, or (3) an increase per worker, or (4) an increase per £100 invested, or (5) an increase per day's output. It may be measured not by quantities produced, but by cheapness. Now, it is very doubtful whether the very opposite of competition, that is, monopoly, could not equal the competitive method in every one of these points. But there are, in fact, three methods to be considered, not two: Competition, Co-operation, Monopoly.

A company has a monopoly when it can control the supply of a commodity. That is the essence of monopoly, and that gives the monopolist his power. The power may be very great, and for this reason people are distrustful of monopolies. In its practical working the control of supply gives the monopolist the power to fix his price. He can decide :

- (1) how much to produce
- or (2) the price per unit.

He cannot, however, fix both of these, for monopoly, like all economic affairs, depends upon demand, and the higher he sets his price, the smaller will be the demand. His aim is to get the greatest possible profit, and if he aims at this with sufficient intelligence, he will fix monopoly Price at the point between (a) fewer sales at a high price and (b) many sales at a low price, where the highest net return is to be found. We may illustrate this by a

tramway company, which has (1) a complete monopoly of passenger traffic *by tram* on a certain route, but (2) only a partial monopoly of passenger traffic, if there is a service of omnibuses, tubes, or surface railways. When these exist, we have a case of competition between rival monopolies, an intermediate stage between free competition and complete monopoly. This type of rivalry is a very common one.

By trial or by guess, the monopolist works out the results of charging 3d., 2½d., 2d., 1½d., 1d., and ½d. for a certain length of run. His data are (1) the price, (2) the number of passengers at the price ("demand at a price"), (3) the expenses of the number of trams required, (4) the "overhead charges": that is, the cost of the lines, electricity stations, rent, and all the expenses that must be met, to keep the system running, whether more or less passengers are carried, (5) the net takings (=price multiplied by (2), less (4) and (5)).

This we may set out:

(1) Charge.	(2) Passengers.	(3) Gross Takings.	(4) Overhead Charges.	(5) Running Charges.	(6) Net Takings.
3d.	60,000	£750	½d.	2d.	£219
2½d.	80,000	£833	½d.	1d.	£458
2d.	130,000	£1080	½d.	½d.	£745
1½d.	200,000	£1250	½d.	½d.	£938
1d.	360,000	£1500	½d.	¾d.	£1078
½d.	600,000	£1250	½d.	½d.	£625

Columns (3) and (6), to the nearest £1. Columns (4) and (5) per run per passenger. Repairs and renewals must be included.

These figures, if they were clearly known, would fix the monopoly price at 1d. But, since it is not easy to obtain such figures except by actual trial, it would be quite possible in practice for the price to be fixed at 1½d. The greater profitableness of lowering the price to 1d. could only be discovered by trying the lower fare, and risking a loss. There is a natural tendency, also, to

charge the higher rather than the lower price : it generally suggests a greater profit at first glance. An unenterprising monopolist company might even halt at a 2*d.* fare, and never discover that 1½*d.* or 1*d.* would pay better ; but such a company would be acting unintelligently.

Another aspect of monopoly was well illustrated some years ago, when a " Whisky Trust " was formed in the United States ; that is, when a single company gained control of most of the distilleries in the country. The Trust closed down half the distilleries, and re-arranged the working of the others, so that the full output was maintained. There have been many similar examples, showing the greater efficiency and the comparative cheapness of monopoly as against competitive methods. The monopoly keeps for its own gain as much of the advantage secured as it can ; some of it, however, passes on at times to the consuming public.

This last example illustrates a more general point. Where there is a large number of firms producing the same goods, they will vary in efficiency and profitableness. Greater profitableness may be caused by :

- (1) Easy access to raw materials, or to markets. Thus a coal-mine near the coast has a means of cheap carriage close at hand.
- (2) A near supply of suitable labour. A cotton factory in London would not have a supply of suitably skilled labour close at hand.
- (3) Greater skill in organising the business or in marketing the products.

Thus, when the Whisky Trust closed many distilleries, it selected those that were in the least favourable conditions, from one cause or another. These distilleries, however, had been working at a profit. If we take a certain grade or quality of whisky, which we will call X, one in very common use, though perhaps selling under different names, we may say that these inferior

distilleries managed to sell X whisky at a dollar a bottle, and to do it profitably enough to keep in business. Now there is only one price for the same article in an open market. The superior distilleries could sell X whisky at the same price, and in fact did so. But they produced it at less cost than did the inferior distilleries. Thus the better distilleries secured an extra profit, which is called by some economists a "quasi-rent" or a kind of rent.

Some monopolies are held by the State or by a Municipality. Of these the best known in England is the Post Office. If the State were to abandon this monopoly, what would happen? In the first place, it is probable that several companies would be formed to supply certain districts. A very likely area would be London or Greater London. It is probable that a private company would (as it could) carry and deliver letters inside this area at less than the present State charges. For letters going outside the area, arrangements would have to be made between the different companies, and after a time of confusion this would be done, though here the charges in many cases would probably be higher than at present. Some parts of the service, however, are now only run at a loss, this being made up by the profits on the shorter journeys. If these were cut out altogether, the profits per £100 of capital would become greater: and the privately owned postal company would probably close them. A State carries on a monopoly of this kind partly for profit and partly as a public service; but it is not the business of a private company, whether monopolist or competitive, to provide any form of public service at a loss.

The greater efficiency of a monopoly is causing this method of business to replace competition. A firm competes in order to gain for itself as great a monopoly as possible, and competition steadily changes into monopoly. There is, however, a strong public feeling against monopolies, and as a result of this, many monopolies are

disguised. Thus the London retail coal-trade is carried on under the names of many firms ; but several of these are different names for one firm, controlling more than half the retail coal-trade of London.

The history of actual monopolies contains many ugly stories that explain the strong feeling against them. An economist who made a study of modern business (Professor Marshall), wrote of them :

“ In a truly open market, competition is often constructive and not ungenerous. But, when a giant business is striving to attain a monopoly, to repel rivals from ground which it wishes to make its own, it is under strong temptation to use ferocious and unscrupulous methods to compass their undoing.”

To that we may add that a monopoly, once secured (even if it is not complete) has less incentive towards improvement than if it were open to the competition of rivals.

Nevertheless, monopoly gains steadily over competition. When the British railways were begun, Parliament encouraged the formation of many small companies, rather than a few large ones, that they might compete with each other. But the larger companies soon began to buy up the smaller ones. The Great Western Railway, for example, contains what were originally more than a hundred separate companies.

A State monopoly differs from a privately owned monopoly, chiefly, in two particulars. On the one hand, the State controls the law, and can pass new laws to support its monopoly. On the other hand, public opinion can more effectively influence the State than it can influence a privately owned monopoly. In neither case is the control of public opinion direct, nor can it act quickly.

## CHAPTER X

### THE PROBLEM OF VALUE

WE have already seen that economists use the word "value" for exchange-value, and the word "utility" for use-value. A gift that is valued highly for the sake of the giver, or for memory or associations; a picture that the possessor has grown to like too much to be willing to part with it for thrice its cost; a carving that an amateur has worked upon for years, and that its maker prizes dearly because of the many pleasant hours he has spent upon it; a faded letter, a lock of hair, of some one now dead: these things stand high in value for one person. Thrown "for what they will fetch" on the world's market, their exchange-value would probably be small. The high value in which they were held cannot be measured in price terms, as exchange-values can: and it is only with price terms, in exchange-values, that economics in its strict meaning is concerned.

"Utilities" is the name that somewhat roughly covers all things with use-value. It does not well express the "values" of some of the things we have just mentioned; to speak of the "utility" of a treasured lock of hair, or an old letter, seems absurd. Still, "utility-value" covers most of the cases that we want to separate from "exchange-value" well enough.

But when we have marked out exchange values, and turned our attention to them, a new problem arrests us. What is the cause of value? What gives its value to a

diamond, a five-pound note, a ship, a hammer, a book ? To that question many answers have been given, and some of them we may consider a little, for they are likely to rise in the mind of any one who thinks over the question.

First, there is the answer we have already dealt with : that usefulness, or utility, is the cause of value. But air and water are very useful, and yet they have usually no exchange value. That is because the supply of them is to all intents and purposes unlimited, in most cases. If they were more rare, they would be more valuable.

That suggests at once a second answer : that the cause of value is rarity, or scarcity. Strawberries are scarcer in April (in England) than in July and so they are dearer. But strawberries are just as scarce at the end of the strawberry season as they were at the beginning : yet they do not command so high a price. Powder puffs are scarce in a lumber-men's camp, red sandstone in Kent, shaving soap in convents, postage stamps in Central Australia ; but they are not valuable simply through their scarcity.

A third answer is that the value of an article is measured by the difficulty of obtaining it. But a leaf from the depths of the Brazilian Forest, a handful of grey mud from the floor of the Atlantic, a stone from Northern Greenland, a scrap of dry moss from the top of an almost unclimbable mountain peak, would be difficult enough to acquire, yet they would have little exchange value.

We are brought close now to a similar answer, which goes a step further in measuring value by human effort : it is the cost of production that measures value and gives it. There is a story told by Baring Gould which answers this. A zealous cobbler spent the spare time of years of his life in producing a word-reference book on the Bible. Under the word "abhor" he entered the chapter-and-verse references, and so for every word. The "cost" of this work, in time and effort, was very great. Its

market-value was nothing, for the work had already been done and published in book form, in Cruden's *Concordance*. If it be said that direct money-cost would be a better proof (though money-costs are only an indirect measurement of production), then we may imagine a small Highland glen to be filled by ten thousand men, hired for a year to cart soil and rock from the country around. The total cost would be very great: the finished work would probably have no economic value whatever.

When an article, such as a plough, is in constant demand, for long periods of time, a maker of ploughs will know fairly well what it "costs," in the various expenses of his factory, to turn out 1,000 ploughs of a particular make in, let us say, three months. From this he can reckon the "cost of production" of a single plough, and the market price must cover this, and average profit, or he will not make such ploughs at all. In such cases the theory that "value is fixed by the cost of production" is close to the truth. If, however, a peculiar make of plough is brought to him to be replaced by a similar new one, one that cost £5 to make when it was new, he may say: "My factory is not fitted for making a plough of this type. No factory is to-day. To reproduce this plough will cost not £5 but £10." Here the "cost of production" is changed to "the cost of reproduction." Moreover, the price-changes of a period of years have to be taken into account.

A machine made for £50 in 1913 might easily have cost £100 in 1919. The cost of replacing in 1919 had to be reckoned, not on the cost of producing the worn-out machine, but in the cost of reproducing that pattern. This example brings forward another point: that although we measure exchange-value by price, "value" is a more general idea than price. A hundred factories may be turning out the machine in question. They may sell at the same price; yet the cost of production



may be different in every factory, for it will vary according to the equipment, organisation, nearness to road or railway, quality of raw material available, and so forth.

These last answers crystallise themselves in the more general answer that labour is the cause of value. This was Ricardo's answer, Adam Smith's, Mill's. It was the answer given also by Karl Marx, who took it from Ricardo's and worked it out elaborately. Men exchange their work with each other, expecting a just exchange: "I will work for a day on your house," says the carpenter to the farmer, "and you will work for a day for me on my field." As for the differences between one man's daily output and another's, it will not appear if we reckon, not the actual time spent in work, in each particular case, but "the socially necessary time." By this phrase Marx meant that if a piece of cloth by the ordinary methods used in June, 1850, represented one-hundredth part of the hourly output of seventy men working in a mill, then its value can be measured by a unit of seventy hundredths. A similar piece of cloth, produced, let us say, by a feeble old weaver using a defective and antiquated hand-loom at the same time might have cost ten times as many hours of labour: but its exchange-value would be fixed by the other, that is by the "socially necessary" labour at the time. This was an attempt to make a definite value-measure; and it connected values which are purely human, with human efforts. Nevertheless, economists have not generally adopted it. The difficulty lies chiefly in the fact that labour is not easily measured in hours. Some differences can be averaged out: but there are so many differences. Besides the great variations between individual men, there are the differences between the same men at different times. In a world where each hour's work was counted equal in value to each other hour's work, scales of prices and exchange values could without much difficulty be worked out on this plan. But in a world of

that kind prices and exchange-values would probably be of little importance. In the world of to-day they rule our lives, and we cannot yet see how to replace them by labour-time units of measurement.

For a long time no theory appeared that was half as satisfactory as the labour theory. It is a human theory, and it lies close to the facts of our behaviour. "You can have that one at half a crown," says the basket-maker, "but when I've finished this one, I'm going to ask ten shillings for it. Taken a lot of time and trouble it has. I've put the work into this one, I have, as you can see. A good ten shillings' worth it is going to be." That is how men talk and think about their work. They measure by time, effort, and skill of "work put in." And there lies the strength of the Labour Theory.

But some labour may actually lower the value of an article. This is noticeable, for example, in artistic work. Ideas of ornament vary between different periods, and between different individuals, but in spite of these variations, there is always a point beyond which the remark will be called forth: "That chair, or pedestal, or vase, is too much ornamented—overloaded with ornament." The excessive ornament cost, perhaps, much skilled labour; but in such a case this added labour has subtracted from the selling price of the article.

In the last quarter of the nineteenth century (in the 1870's) another theory took shape. It appeared at the same time in three different countries, and it has become known as the Final Utility Theory or the Marginal Utility Theory. The three economists whose names are associated with it are William Stanley Jevons, Carl Menger (Austria), and Leon Walras (Switzerland). That the same theory should be put forth independently by three different economists is a point in favour of the theory, though in itself it is not a sufficient proof of its correctness. The very general acceptance of the new theory by the economists of different countries is a further

confirmation. Many Socialists, the English Fabians for example, accepted the Final Utility Theory, and built their arguments upon it, rather than upon the Labour Theory. These facts make it reasonable to say that the Final Utility Theory offers the most satisfactory explanation of Value that has yet appeared: they do not warrant us to say that this answer is final.

The Theory of Marginal or Final Utility comes from the Law of Diminishing Utility that we have already noticed. Indeed, it was in working out that Law, in setting forth the scale of diminishing wants, that the Theory of Final Utility made its appearance. It turned attention from the total to the particular parts. Our wants, as we have already noticed, seem capable of endless increases: they are insatiable. But our want of any particular kind of economic goods or services is quite satiable. When a man has satisfied his want of bread, he may turn to another kind of satisfaction, and read an interesting book. Instead of turning our attention, however, from bread to books, as he does, let us fit it upon the last slice of bread that he ate. The utility of the bread to him was here at the margin. The seventh slice, which he does not eat, is beyond the margin. We are concerned with six slices only, and with the sixth slice in particular.

These slices are unequal and equal. Certainly the first eaten yields the greatest satisfaction, the last eaten the least satisfaction. But they are interchangeable. If the first should be removed, the sixth could fill its place quite satisfactorily. The slice that really disappears is the sixth—the least useful. Since the slices are interchangeable in that sense they have equal values. The scale of value runs to 0 at the seventh slice. At the sixth it is still something with an actual usefulness. It is this sixth slice, then, by which the value of the whole is measured. This man will not buy seven slices. If he has five he will buy a sixth. What will he give for the

sixth slice? If the answer is a "penny," then the exchange value of all the slices will be a penny. He would pay more for the first and second slices, if he could be made to buy each one separately, not knowing that other slices are to be had at a penny. But to deal with him in this way is not practicable. There is only one price for the same class of goods in the same market.

This last statement, like all statements in economics, must be used with some care and exactness. The "market" may be a different one a few streets away in a town. Retail prices of the same class of fruit differ rather widely as between Camden Town and Hampstead, for example. But where the "market" is really the same, the price of a certain class of goods will be one price.

These different theories of value are useful in proportion as they offer us a practical scale by which values may be measured, and in proportion as they present a great deal, and not a fragment only, of the whole truth. The Marginal Theory and the Labour Theory are those which best satisfy these tests, and of these two the Marginal Theory seems to meet the needs of most inquirers better than the Labour Theory. The central difficulty of value lies in the fact that Value is not one thing, but a relation or ratio between two things. These two things are what we call supply and demand. Supply is often limited or governed by cost of production; demand is determined by utility. We may therefore express value as a ratio, in this fashion :  $\text{Value} \propto \frac{\text{Demand}}{\text{Supply}}$

(Or, Value *varies as* the ratio of Demand to Supply. The greater the Demand the greater the value; the greater the Supply, the less the value—if each be considered separately.) Or again, we may put it thus :  $\text{Value} = \text{Cost of Production} \times \text{Utility}$ . (The greater the utility, the greater the value; the greater the cost of production, the greater the value. Note that "utility," in the economist's meaning, has a wide range. It covers

the enjoyment of an old picture and of a new diamond brooch.) It is because none of the theories of value take into account both demand and supply that none is completely and generally satisfactory. The Labour Theory is chiefly concerned with the cost of production ; the Marginal Theory chiefly with utility—that is, with the consumer. Perhaps further inquiries will not bring us any more satisfactory solution. For, as Professor Marshall has pointed out, cost of production is the chief factor in governing value for long periods, and demand for short periods. If the stock obtainable, he says, is fixed, as in the case of a fish market on a certain day, then what price people will give depends chiefly on their desire for fish. The exchange value will be ruled chiefly by utility, by demand. But where the cost of production remains about the same from year to year, the price will be fixed chiefly by that cost. The price cannot for any length of time be below the cost of production : and, if there is no monopoly, it will not rise very much above it.

## CHAPTER XI

### RENT

INQUIRIES into the question of rent have produced a curious example of history-in-a-circle. It would be a more accurate description to say history-in-a-spiral; for the inquiries have not been fruitless in the sense of bringing us back to the starting-point, no better for our search. They have been indeed, quite fruitful in making clear what lies hidden in the idea of rent.

The starting-point of the inquiry is the general meaning given to the word "rent," or its equivalent in other languages: what the ordinary man understands by it. The rent of a farm, of a plot of land, or a town, of a house, of a factory, of a cycle-shed, of a stable—these all imply payments for the use of some form of fixed property. A man will speak of renting a cycle-shed as naturally as of renting a farm. He will not as readily speak of renting a cycle, however. Here he is more likely to use another word—"hiring" if he is an Englishman, "louage" if he is a Frenchman. In inquiries and discussions of this kind, it is often useful to make a few cross-references into another language, to keep ourselves from sliding into what the Greeks called word-fighting (*logomachy*). The point where the word "rent" seems to be abandoned for another is the point where the property that is "hired" is not fixed, but movable. As usual, the boundary between the two words, as between the two kinds of property (fixed and movable), is not

marked by a clear, hard line. But the more the property seems fixed, the more readily is payment for its use called rent.

The first steps of the inquiry were made in the belief that rent was something peculiarly belonging to land. As the inquiry proceeded, it became plain that this was not so. Not only payments for land, but payments for other kinds of property, fixed and movable, and even payments for certain kinds of work and service, were found to contain elements of rent.

This last phrase, "elements of rent," brings into our survey another aspect of the inquiry into rent. Were the "rents" of common knowledge, like the air, mixtures? Did they contain within themselves varying proportions of an element, the true "rent," as air contains oxygen? (Some of the inquirers would have preferred to compare rent to carbon dioxide, though they could not then have called it an "element.")

Part of the inquiry now became a search for this element, which has been called "rent in the true sense of the word," "economic rent," and "pure rent." Since the War, "economic rent" has been widely used in a somewhat different sense; that is, to mean rent at full market value, without any reduction by grants or bonuses, or for any other purpose. (As for example, when farm-labourers' cottages are let by a farmer at a low rent, to secure a supply of labour, or when "economic rent" means "the rent necessary to give a normal return on capital outlay.") To define the element which is strictly to be called "rent" pure and simple, the best short phrase is "pure rent," and that is the one we shall use here.

The inquiry which we shall briefly review is quite properly centred round the rent of land, for that has been, and still is, the typical case where rent appears.

Early man, even when he had begun to keep flocks and herds, and to cultivate the land, seems to have had

the idea of the land of each district belonging to the tribe. For a long time the idea of separate parts of land being the private property of individuals did not appear ; and therefore, there was no question of paying any land-rent.

But we had better notice at once, that rent may exist without its being paid to another person. If the owner of a house, when his tenant leaves it, moves into the house and lives there, the outward payment of rent disappears, but the rent still exists. If the owner-occupier has any doubts on the subject, they will be rudely taken from him when he has to pay his income tax : for the rent of the house will be counted as part of his income. We may say that he pays the rent to himself, or that he "enjoys" the rent. We may not say that the rent has disappeared.

Possession of land by the tribe or community is older than individual possession. This does not prove that the customs of early man were better or worse than ours. It shows only that early man, like his successors, followed the impulses of his wants, according to the nature of his surroundings, and his own powers and knowledge. The communal ownership of land in early times appears to be an historical fact. If it be claimed as an instance of natural and simple rightness, it is open to be counter-claimed as an example of early crudity. In earlier ages, especially among a hunting race, no impulse towards private possession existed. The first to demand payments for land were probably priests and kings, and the "rent" or tribute would not be connected very closely with the soil. Also, it would be paid by groups, not by individuals. In feudal Europe payments to the overlord became very closely connected with the land.

The first modern inquiry into the nature of rent was made by the group of eighteenth-century French economists who came to be called the Physiocrats. Agriculture, they thought, was the only occupation that produced a real increase of wealth. Here Nature gave



a surplus, they said. Merchants and manufacturers were useful and necessary ; they paid for themselves out of their labours, but they added nothing to the world's store of wealth. In the case of agriculture alone (mining and fishing were added by some writers) Nature aided man, and so a "net" product appeared, the gift of Nature. The owner of land held a monopoly of this gift of Nature, and so could charge a rent. The Physiocrats carried their argument on, quite logically, to show that all taxes should be taxes on rent, since other men got no such "surplus" as came to landowners.

The arguments of the Physiocrats are now examined only by students of economics. They were replaced by another set of arguments, coming from English writers, of whom the ablest and best known is David Ricardo.

The Physiocrat idea was that rent came as the result of the bounty of Nature. Ricardo described it as coming rather from Nature's stinginess. Fertility, by itself, he pointed out, does not cause rent to appear. In a new country, where there is so much fertile land that every settler can use as much as he can work, no *payment* of rent appears (though "rents" may be enjoyed) so long as there is more of the fertile land than is in demand. By and by, however, all the first-quality land will be taken up. Whoever wants land now, must take second-quality land. After a while only third-quality land is available.

Suppose, now, that a new settler, W, arrives, just when one of the first settlers, A, is about to withdraw from farming. W offers to take over A's farm, and to pay for the buildings and fences that A has set up on it. A, however, asks more than that. The land is producing as follows :

1st Quality	..	..	30 bushels per acre.
2nd Quality	..	..	20    "    "    "
3rd Quality	..	..	10    "    "    "

"Now" says A, "you can get third-quality land free. By working on that land, you can raise 10 bushels of corn per acre. But on my land, by putting in the *same* work you can get 30 bushels. If you give or pay me 20 bushels an acre per year, you will be as well off as if you took over some third-quality land."

Thus the rent of the first-quality land is about 20 bushels of corn ( $30 - 10$ ); of the second-quality 10 bushels ( $20 - 10$ ); of the third-quality, nothing. The third-quality land is "no rent" land.

An American writer (Walker) pointed out later on that this description did not fit the actual facts of settling in a new country. The fertile districts were often among the last, and not the first, to be cultivated, because they were difficult to clear of their luxuriant wild growth, or because they were unhealthy until they were drained (no doubt mosquitoes played their part in these cases) or because they were inconvenient of access.

The order of time in cultivating different qualities of land, however, does not very greatly affect Ricardo's argument. Lands of different fertility are in fact cultivated, and they produce many things—wheat, for example.

[Writers at this period had their attention turned to wheat. Before the wars with France (1793-1802; 1803-1815), wheat remained steady at about 60s. per quarter. In three years (1796) it rose to 92s. In 1801 it was at 177s. From 1810 to 1813 it was 106s.]

Prices and values, said Ricardo, must cover the cost of production of the goods, or they would cease to be produced. The price of wheat must cover the cost of producing the wheat, even that grown on the poorest and most difficult land. For this there must be a price that will pay the farmer who grew it, even if it only barely pays him. But when this price is once fixed, it is the price for all wheat of the same quality. The cost of producing wheat on the poorest land, "no rent" land, fixes the

price of wheat. This gives an "excess profit," to use a modern term, to all the cultivators of the better lands. If they are not the owners of the land, then the surplus or excess profit is taken by the owners as rent.

We may set out the case in this form :

- (1) There is a demand for 3,002,000 quarters of wheat, and this is produced.  
To produce the last 2,000 quarters, land offering unfavourable conditions must be cultivated.
- (2) The cultivators of these 2,000 quarters must receive a price that will at least make it just worth their while to produce the wheat. The price will cover the cost of producing it, pay the cultivators a "living wage," but no more. Let us put this price at 50s. a quarter.
- (3) The price of all the wheat is now fixed at 50s. ; fixed, that is, by the least profitable part of the whole production. Some of the cultivators could sell their wheat at 45s., at 40s., at 35s., and still find it "worth while" to grow wheat, even if only just worth while. They get a "producer's surplus" of 5s., 10s., 15s. per quarter of wheat sold—if they own their land. If not, they will be able (even if not very willing) to pay rents up to, but not beyond, what this surplus will cover.

Even if all lands were equally fertile, and equally favourably placed, a true rent in the economist sense would appear, at a certain point in the increase of demand, that is, in the increase of population. This is due to the Law of Diminishing Returns.

The word "return" is used to cover what the farmer would call the crops or yield, what the manufacturer would call the output of his factory. It has been used, in economics, in many connections, but it has little true meaning except in the case of one of them. Mention

is made, in works on Economics, of the return to Labour, to Capital, to Land. But to speak of a piece of land, or a machine, getting a crop, getting an output of gramophones, as a "return" for its "share" in producing goods, is only a figure of speech. So long as it is used as a figure of speech, and so understood, no great harm is done; but it is easy to take another step, and to have a vague idea of a personified Land or Capital who receives a share of wealth produced. The return of economic goods is a return to Labour, working upon and using natural and artificial materials ("land and capital"). The labour, of course, is labour of all kinds, including direction, organisation, and management. One of the prime aids to modern human labour is the accumulated knowledge from past generations. This might also be personified, and credited with its share of the total return, as well (or as ill) as Land or Capital. The true return is the return to all productive human effort, directed upon and by means of natural and artificial materials. Unproductive effort, or unproductive work, of course, must be set aside; but there is not much "unproductive" work in the true sense of that word, as we have already noted.

"Returns" from the point of view of an investor, are returns to his capital; to a working farmer, they are returns to his labour (his own and others') using capital (tools, horses, tractors, machines); from the social and human point of view they are returns to human labour, mental and physical, past and present.

We may now follow the working of the Law in three stages.

*First Stage.*—A farmer "puts more" into his fields, by ploughing oftener, buying selected seed, using phosphates and nitrates, liming or by any other method, and finds that the return in crops *more* than pays him for his efforts. He spent an extra £200, and he gets an extra return of £300. As long as he gets his extra money

back, his expenses, his average profits, and more, he is getting increasing returns. Next year he puts in this extra £200 again, which once more brings a return of £300; and also he puts in another £200, which brings in £250.

*Extra Cultivation.*

1st year £200

2nd year £200 }  
and } £400  
£200 }

*Extra Return.*

£200  
plus £100  
£200  
plus £100  
and } £550  
£200 plus £50 }

*Second Stage.*—In the third year, he puts in a third additional £200. But this only increases his returns by £200. He has arrived at the point of Constant Return. We must not imagine that this third £200 Investment is unprofitable. The return of £200 does not mean that he simply gets his £200 back. It means that he clears his expenses, and gets the same *rate* of profits he was getting before he started on these experiments. His total profits are increasing; but they are not now increasing at a faster rate than his total output. He was more than repaid for the first and the second extra £200; now he is repaid just to the point where it is worth his while, and no more.

*Third Stage.*—If, in the fourth year, he invests in four £200 improvements, he may find that his last £200 brings in less return than he was getting per £200 before he began on these extras. He has reached the point of Diminishing Returns. Again, we must remember that even this fourth £200 investment may be profitable; but it is not only less profitable than the 1st, 2nd, or 3rd. It is less profitable than the average profit that he counts on getting by ordinary farming with a small capital invested. He will probably drop this fourth £200 investment altogether.

The Law of Diminishing Returns has been expressed in several ways, of which the most exact is Professor Cannan's. It may be paraphrased thus :

There is a point of maximum productiveness for any given industry in any given state of knowledge. The amount of labour (or, in general terms for the world, the size of population) which at that time gives the highest power of production, is fixed. Either a smaller or a larger use of labour (or, labour-and-capital or, population) at that time will give a less proportionate return.

The phrase "in any given state of knowledge" may be changed to "at any point of time." It implies two statements: (1) that the total of population that the world can support is not a fixed number. It depends on the state of human knowledge. By Stone Age methods, the world could only support a small human population. Improved methods make the support of larger and larger populations possible. (2) If the law of Diminishing Returns did not operate, then it would be profitable to cultivate by square yards instead of by acres, expending as much on each square yard as is now spent on an acre, or on a county.

The efforts of the economists after an exact idea of rent were partly based on their seeing that there was an element in rent that had nothing to do with payment for effort. The "supply" of land is fixed. There is a certain amount of it which cannot be increased. A greater demand for shoes may cause more shoes to be produced. A greater demand for land cannot cause more land to be produced. There are cases, such as the polders of Holland reclaimed from the sea, where man has actually added to the total "supply" of land. But these are trivial in proportion to the total of the land surface of the earth, though they are by no means trivial to the industrious Dutch who gained and who use them. The reclamation of desert land by schemes of irrigation

might also be mentioned ; but this concerns the improvements of land, not an increase of surface. Here is the great difference between land and goods, between land and all other economic necessities. Land, the earth, together with human labour and intelligence, are the two great essentials of economic production. If there is anything which makes rent quite different from payments for other goods, it seems as if here is where it should be sought. Since land is different from goods made by man, in this important respect, that the supply of it is fixed, then surely rent is likely to be something peculiar to land.

But a further inquiry shows that there are other economic goods that have the same mark of a fixed supply. Coal and mineral oil, two very important commodities in the modern world, are limited in amount, and we are perhaps even less able to add to these amounts than we are to add to the earth's surface. So the idea that land is quite peculiar in this respect disappears.

In the case of ground-rents in a town, questions of crops and fertility do not appear. The payment in this case is for a certain area in a certain position : for " site-value " measured by the square yard. The payment is for the use of a position. The value of the position will depend on the demand for it. That in turn will depend on the size of the surrounding population and its density ; upon the amount of the business transactions centred at and near the spot. All this can be separated from the value of the actual building upon the site, and this in fact is very commonly done, for the " ground-landlord " may be a different person from the landlord owning the buildings.

Ricardo partly met this difficulty about farm rents by making a distinction between perishable improvements, whose value came from the capital invested, and permanent improvements. These, when they were fixed in the soil, might be considered as having become part

of the soil itself; and so payment for them might be reckoned as true rent.

We may now set out a statement of rent, in Ricardo's sense, but in the form that a modern economist would probably use, one who was inclined to think that in the main Ricardo's description is sound, needing only some modification. It might go in this fashion :

(1) The word rent, in common usage, means a yearly payment for land and buildings. This, however, consists of two parts :

- (a) payment for the work put into the land, clearing, draining, fencing it, and putting buildings on it.
- (b) payment for the land itself, for "the use of the original and indestructible powers of the soil." This alone is "pure rent" or "economic rent."

(2) Increased demands for food causes lands of inferior fertility to be called into use, to the margin of cultivation. The better lands have an advantage in production. The amount of this advantage above the worst land actually cultivated is the measure or limit of rent. The worst land in actual cultivation cannot bear any rent. It is "no rent" land.

(3) Or, the increased demand for food may be met by a more thorough cultivation of the lands already in use. But the extra food so obtained would cost more to produce than did the earlier amounts of food, through the Law of Diminishing Returns. These earlier amounts would then yield a rent, *i.e.* the difference between the cost of production of each 100 bushels of wheat, for example, before and after the more thorough (and more expensive) cultivation was put into operation.

(4) Advantages of position work in the same way as advantages of fertility. A rood of land near the centre of a city commands a higher price, and yields a higher rent, than a rood at the outskirts. Position, indeed, is of



more importance, even with regard to agricultural land, than the early economists thought. They fixed their attention rather too much on fertility. When crops are only used to supply the immediate neighbourhood, fertility is of the first importance ; but when production is for a world-market, or for distant markets, then nearness to a cheap method of transport may easily outweigh an excess of fertility.

The modern view of rent is wider than this. In the first place, rent of land is viewed, to use Professor Marshall's words, " not as a thing by itself, but as the leading species of a large genus ; though indeed it has peculiarities of its own." Others of this " genus " are called " quasi-rents." It is not only cornfields that differ in productive power. There are similar differences between various investments of money, and between the ability and the productiveness of various workers.

If for example, there are a hundred different clerks in a Government Department, all of them of the same " grade " : that is, receiving the same scale of salary, it does not follow that they are all equally productive. Probably no two are alike. The " cost of production " of a clerk of this grade is the same, or about the same for all. The clerk whose efficiency is just low enough, or just high enough, for him to continue to be engaged, represents " the margin of cultivation," or " the least productive of a series of investments of capital." The work (output) of all the clerks of higher efficiency includes something, large or small, above the output of this " low fertility." These amounts of additional output are " producers' surpluses," that is, they are rents. In this case the " rents " go to the community in the form of extra work, or work of extra quality.

In many cases, these " rents of ability " are enjoyed partly or wholly by the persons themselves. An artist of exceptional ability has the equivalent of " first-grade

land " in his possession, and what he receives over and above the lower-paid members of his profession is of the nature of rent.

A rather striking example of the working of " the law of rent " occurred during the last War, when the question of the supply of coal came under discussion. The deeper and the worst-equipped mines (those " on or near the margin of cultivation "), it was claimed, could not be worked profitably unless the price was raised by 2s. 6d. per ton. This was done. A full supply of coal was obtained, the poorer mines were able to work profitably ; and the other mines, or rather their owners, received a surplus or " rent " of 2s. 6d. per ton.

There is an old argument in economics as to whether rent " enters into the cost of production." If that means whether or not a farmer would reckon his rent among his total costs, his outlay, then the answer is that he would quite properly and certainly do so. But what was meant very often was whether rent were the cause, or partly the cause, of high prices. To that question Ricardo very properly answered " No "—though he was no lover of rent-receivers. On the contrary, he said, high prices are the cause of high rents.

Let us take the case of such a farmer as we have first mentioned, who is about to put into his land, or " invest " in it, an " extra dose " of labour-and-capital. This is part of his " cost of production," without any doubt : but his rent remains the same whether he puts in this extra dose or not.

Rents are governed by prices. They are measured in exchange values. The rents of houses in Harley Street are higher than those of similar houses a few streets away, because there is a scarcity of houses with a " Harley Street " address, and doctors who use that address obtain higher prices or fees than do other doctors (who may be equally skilful) living in X street. On the high fees of these doctors a higher rent is levied by the

owners of the houses. If the doctors owned the houses themselves, they would enjoy these rents in full.

In the same manner, it may be seen that if all the

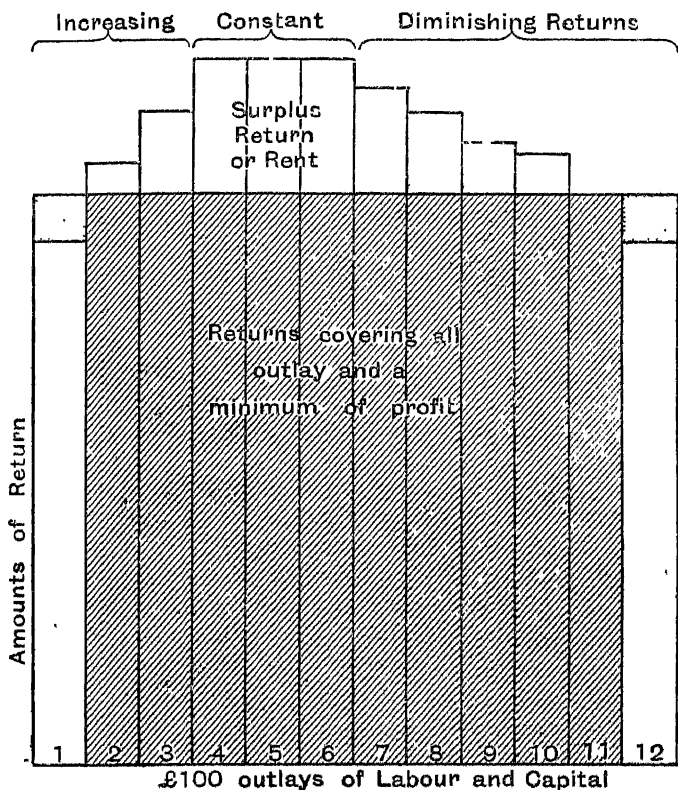


FIG. I.—Producer's Surplus, or "Rent."

The 1st and 12th outlays of £100 are unprofitable. They are "not worth while." The 1st represents a necessary step (in itself unprofitable) towards the 2nd, 3rd, and so on. It must be retained. The 12th will be abandoned. (See page 225.)

farm rents in England were by any means abolished, prices would not be changed. The "producer's surplus" which is now paid in rent would be added to the farmers' incomes. It follows from this that if a tax on rent is taken away, the benefit goes entirely to the receivers of rent. On the other hand, if a new tax is laid on rent, it must be paid by the receivers of rent. They cannot "pass it on" to their tenants, unless they have not been charging the full rent. If they have been charging the full rent, then they cannot raise it, since the tenants are, under full rents, only making a profit that just about makes it worth while for them to hold and work their farms.

This is the theory which fits cases as a whole. In actual fact, Irish tenants have at times attempted to pay more than the full "producer's surplus," and have impoverished themselves in the attempt. (Other Irish tenants have adopted a plan of payments at the other end of the scale: but that is as much a political as an economic question.) It is also a fact of history that many farmers have not paid, or do not pay the full "producer's surplus" as rent. But in the generality of cases, and in the long run, rent absorbs most if not all of what economists reckon as "producer's surplus."

The "pure rent" element which can be traced, not only in payments for land and fixed property, but in returns to investments of money of all kinds, and in the earnings of labour, has distinct marks of its own. They are:

(1) These rent-elements are not due to the owner or user of what commands the rent, but to social and natural causes which are neither caused nor controlled by the receiver of rent: that is, rent is "unearned income" in the more exact sense of that phrase.

(2) These rents arise from scarcity. They are scarcity-values. They depend on prices: they do not cause prices.

## CHAPTER XII

### THE DISTRIBUTION OF WEALTH

THE perfect using, spending, consumption of the world's production of economic goods would be according to need, so that the most pressing and most important needs would be satisfied before the less important ones. The distribution of wealth that would make this kind of consumption likeliest and most possible would be distribution according to need. "Nothing in economics is more certain," writes Professor Cannan, "than that the best distribution—the distribution which makes a given amount of produce go furthest—is distribution according to need."

Perfect economic distribution may be considered to be: (1) that "which makes a given amount of produce go furthest"; (2) that which creates the best conditions for further production; (3) that which best satisfies men's sense of justice.

All three requirements would be met by a perfect economic distribution. It is not claimed for the present distribution of wealth that it secures any of these three results. The optimists of the eighteenth century used such phrases as "whatever is, is best" and "all is the best in this best of all possible worlds" to an extent that makes it plain they half believed them at least. Voltaire mocked at such easy beliefs; and in the twentieth century it is not easy to take them seriously. Whatever may be the satisfactory method of distribution, be it

"according to need" or any other, no one now claims that it is widely practised in the business life of mankind.

The threefold division of the earlier economists, of the factors of production—land, labour, capital—itself suggested a threefold distribution of wealth—rent, wages, profit or interest. This was worked out in a scheme of what a modern writer calls "pseudo-distribution," thus—rent reckoned at so much per acre per year; wages reckoned at so much per person per week; profits or interest reckoned at so much per £100 per year.

The weakness of this method is that the different ways of reckoning are not related to each other, and that the separation of Rent from Profits is an imperfect one, as we have already seen. The modern division is into (1) Earnings of Labour (of all kinds); (2) Incomes from Property.

The questions that most constantly arise about the distribution of the world's wealth are chiefly these:

- (1) Of the yearly produce of goods, what proportion goes to "labour" and what proportion to "capital"?
- (2) What determines the proportion in each case?
- (3) Are the proportions fixed? If they are changing, what changes them?

Three estimates of the National Income, made during the present century (see Appendix) give an average of about two thousand million sterling. But when it comes to the figures for the division of incomes into two parts, going (1) to labour and (2) to property, the estimates vary very widely. They are calculated from the figures of those who do and of those who do not pay income tax. A similar wide variation occurs between the seven estimates given, and also between the longer list of estimates from which these are taken. It cannot be said that we have any figures which show with any exactness the proportions of the national income (or "national dividend") going to "labour" and to

"property" respectively. Nor do they make it clear whether the share of labour is increasing or decreasing.

The increase in income-yielding properties, however, goes steadily on; and wages on the whole increase rather slowly. These two facts make it rather likely that the share falling to property is gaining on that going to labour; and that is the view taken by most economists.

If we turn from this division as between property and labour, to the question of individual incomes, we are inclined to ask, first of all, what are the causes of the very great differences?

The most important cause, by far, lies in inheritance. The bulk of the great incomes of the world consists of inherited incomes. When a great individual fortune is once made, it is not usually scattered. Family feeling causes men to leave the bulk of their fortunes to a single heir; and this may so continue for many generations. Property in land, in particular, has been kept in large units in this way; but the same rule holds good for great financial and industrial fortunes. The inheritance duties, or "death duties" act as a check upon this tendency.

The next most important cause of the differences of individual incomes, after inheritance, lies in differences of capacity to save. These differences of capacity are of two kinds, one belonging to the store of wealth or capital already possessed, and the other to differences of disposition. The first of these depends on the fact that it is easier to save out of large than out of small incomes; and these savings are usually invested and usually increase. In the case of very large incomes, too large to be spent as fast as they "come in," such saving through re-investment becomes almost automatic.

The other difference in the capacity to save shows less striking results, but it affects a larger number of men. It consists in the simple fact that all men are not equally thrifty. They vary, in many grades, from the spend-thrift down—or up—to the miser. The fact that most

of us hesitate a little about admiring the man representing one extreme or the other, and that we usually condemn both, suggests that thrift is admirable only in the old Greek sense of "nothing too much." A mother who saves while her children are unfed or insufficiently clothed; a nation which saves (though nations oftener borrow) while many of its citizens grow to be inefficient—these do ill to save. Economics means, not merely housekeeping (in Greek, *oikonomia*), but good housekeeping; and that means expenditure according to the order and importance of needs.

The third cause of the differences of income is again duplex—skill and luck. These two are quite separate in themselves, but they are often entangled in life. Two men, equally skilful, may finally earn their tens or their thousands respectively. If luck favours one and not the other at a critical moment, the lucky man may find the step he has gained (possibly a small one) opens his way to a series of steps. Moreover, in connection with skill, we must remember, that in economics the market value only of the skill, and the market value at the time, is the wealth-measurer. The skill of a Socrates, a Roger Bacon, a William Blake, was in each case of a high order; but many men of a much lower order of skill have been paid at a higher rate than these. Many of the earlier economists were so stimulated by the immense increases in production occurring in their lifetime, that they were constantly trying to prove to themselves and to others that even what looked bad was really good in disguise, and that unequal things were really equal things in disguise.

Thus, observing that different occupations and individuals were differently paid, they set about trying to show that there was a real equality behind it all. But it is neither reasonable nor necessary to do this. As between different occupations, people are more likely to crowd into those that are fairly agreeable, and to



keep out of those that are disagreeable. Often this crowding is checked by the fact that the more agreeable occupations are risky, or need a rather costly training ; so often that the more agreeable occupations are mostly secured by or for the children of better-off parents. Thus it comes about that the more agreeable tasks on the whole are those that are better paid. The children of poorer parents do not find a very wide choice of occupation before them.

In their range of choice, however, there are actual cases where a more agreeable occupation is chosen at a lower rate of wages. The preference of many girls for factory work instead of domestic service is often mentioned as an example of economic blundering ; for the real wages of domestic service, it is said, are higher than those of factory work, since, in the first place, food and lodging are provided. But the girls seem to reckon the free evening of factory work, and even perhaps the less constant supervision and reproof, as an asset of " real " wages that over-balances the other.

The differences in the incomes of classes of men, like those of individuals, are also the results of these three causes : inheritance, disposition, and skill-and-luck. This grouping, however, leaves out the question of training and education, which we may consider here in connection with skill.

The inheritance of wealth, and the results of it, are concerns of economics. The inheritance of skill and capacity is a problem of biology, and a problem not at all satisfactorily solved. So far as it concerns economics, it turns on two questions : first, whether great fortunes are made by those who add greatly to the world's productive powers ; and secondly, whether this productive capacity is handed on by heredity to the sons of successful men. To neither of these questions can a confident answer be given ; with both of them, the answer lies too far from a clear " yes " to be satisfactory.

By skill and capacity we mean two things, inborn powers and trained or cultivated powers. But the differences of training and cultivation lie chiefly in the different incomes of different parents. The training necessary for a professional career, such as that of a doctor or a solicitor, is longer and more costly than the training for the work of a joiner or a dustman. Indirect things, such as the pronunciation of words, a courteous manner, are often important considerations in the equipment of a man engaged in highly paid work. These things require scarcely any intelligence to acquire, in youth, among people who have themselves acquired them. But they are very difficult indeed to an adult, even if he is very able, if his youth has been spent among people of a low culture. Thus the differences of income among people of different occupations are partly caused, not by differences of skill, but by differences of training which largely depend on the incomes of the last generation. How great a factor this is we cannot tell : but it is certainly very considerable. The community expresses its consciousness of this fact through systems of public education, bursaries, scholarships, and so forth.

Inside an occupation, the other factor of inborn powers probably plays a greater part than it does as between different occupations. Here it is checked mainly by two forces. One of them is the same influence of the last generation that we have just mentioned. It works partly by the son or daughter being " put in the way of " such posts as clerkships, secretaryships, and so forth, through the knowledge that the parents or relatives have concerning the conditions of entry. In its lower form it works in the process of " jobbing " rather incompetent youths into posts, by the avoidance of any form of competition : by the creation of a small area of privilege or monopoly. This, of course, is an injury to the world's productive powers. The inefficiency of the old Civil Service was largely caused by the working of such a

system of patronage. Most of it was swept away ~~by the~~ method of entrance by competitive examinations.

The other force that checks differences of pay inside an occupation is the establishment of a "standard rate of pay." It represents an effort to make secure a sufficient standard of living, and it is used by organisations to establish the scales of pay of solicitors and the union rate of Trade Unions. It is a defence against possible degradation, and its wide-spread and continuous use, in the face of much criticism, is some proof of its comparative effectiveness. But it certainly makes against the world's productive power in cases where it discourages the exceptionally able from making full use of their exceptional capacities. As a criticism, it is usually turned against the Trade Unions. But there is no reason to suppose that the nature of men is very different in different occupations. Resemblances between large bodies of men are much more marked than are differences.

We have not yet considered the second of the three questions: What determines the portion of the total produce that goes to labour and to property?

In early times, when there was little property or capital, the total of the share going to property must have been small. The total produce itself was then small as we should now reckon; but of that total, so much was the result of the direct labour of hunting, fishing, and the gathering of wild fruits, that there was little scope for a share going to owners of property as such. Capital consisted of spears, fishhooks, and simple tools, fairly easily supplied to each man by himself. In the modern world there is a great stock of capital, much of it owned, not by the workers who use it in producing goods, but by a distinct (but not separate) class. It is because of the partial separation that the question comes up at all. The increase of capital with an exchange value means an increase of the total share going to "capital." New capital will not be produced, in the world as we

know it, unless that capital is allowed its share of the total produce.

We speak of "labour-saving machines," as cases where six men with modern implements and modern knowledge can grow as much corn—let us call it 1000 bushels—as was formerly grown by sixty men. The total produce is the same. If the six men do not now each receive ten times the wage of their sixty predecessors—and they do not—then some of the bushels of corn go to the owners of the new implements. The extra effectiveness is due to the new capital, and the owners of it will be able to lend it in return for something not greater than the added effectiveness it gives.

We must keep away from our minds any suggestion of a personified force dealing out shares according to some plan of justice. Nothing of that kind happens. The division of the product of industry is made by methods of direct war, as in the case of piracy; or by human-made laws, as in the case of the payment of Members of Parliament and the inherited incomes of peers; or by bargaining between people either openly competing or entrenched in monopoly. In this last case again, law plays a part. It is this case of bargaining which is often described as the working of economic forces. It is in itself a form of warfare, for it is to the interest of the worker to get as large a share of the total produce, in the form of wages, as possible: and it is to the interest of the owner of property to secure for himself as large a share as possible.

A modern attempt to explain why so much or so little of the total produced goes to labour, takes the form that wages are not only fixed by the wage of the marginal labourer, but that they are equal to the net product of his labour. This needs a little explanation.

The "marginal labourer" is, we will say, the hundredth man employed by the employer who has decided that he wants a hundred men but not a hundred

and one. The employer has here reached the margin of doubt. It is just worth his while to engage this last man, and no more. And the wage that is just worth the employer's while to pay this marginal labourer fixes the wages of the whole class. The argument is very similar to the arguments about land, rent, and the margin of cultivation. It takes the place of Ricardo's "cost of production" argument. The values of goods, he said, are fixed by their cost of production. The value of labour, which is measured in wages, will be fixed by the "cost of production of the labourers," that is to say, it will always be at or near "subsistence wages," just enough to support a family and no more. It was because many early economists accepted this "iron law of wages" as an immovable fact that they thought Trade Unions would have no effect on wages. It is still impossible to prove by figures whether Trade Unions have or have not helped to raise wages; but there is a general belief that they have done so.

The second part of the statement, that wages tend to be equal to the net product of labour, naturally raises the question: what is the net product of labour? There is in fact no way of reckoning it, that has yet been offered, but this. From the value of whole product take away the share going to rent, quasi-rent, interest, profits: and what remains is the net product of labour.

Another question just as naturally arises: Why should not labour, the human element, be "a first charge upon industry"? Why not subtract wages and rent from the total product, and say that what remains is the net product that should go to profit? This argument appears to be just as useful as the first; but neither of them helps us very much.

This discussion is largely in terms of conflict, whether open or more or less hidden. But such is the plain fact of economic distribution. In the division of the total product, it is the aim of each party to obtain as large a

share as possible. Interests are opposed. In the matter of production, however, interests are not so directly opposed. It is to the advantage of both parties to have as great a total as possible to divide. Yet, although it is to the final interest, both of "labour" and of "capital," that the total production should be as large as possible, it is not always to the immediate advantage of a group of workers of an individual firm, or even of an industry, that it should be so. Since the war, the production of tea and of rubber have been definitely curtailed, because of the fact and the fear of falling prices. On the other hand, workers, when asked to produce more, have asked in return for some guarantee of an early share of the increased product. But no such early return can be guaranteed.

So far, we have only spoken of the proportions. If we are considering the total going to capital or to labour, we must count first of all the total of production. If that is increased, then even if the proportions remain the same, the share of each is increased. But a cry for "more production" will not awaken any hearty response if there is dissatisfaction about the methods or the results of the distribution of the wealth produced.

At the beginning of this chapter, we quoted an opinion about the probable effects of a distribution according to need. We might now consider what is often represented as almost the exact opposite: a distribution according to talents, or deserts, or capacity.

First of all, we should put aside the idea suggested by the word "desert," the idea of a payment for being good. The nineteenth century had its own favourite ways of looking at things, its own favourite moralisings, just as every period has. The economists of that century spoke of men being paid according as they deserved to be paid, though the facts of life around them did not suggest such a view. They said that interest was the "reward of abstinence," as if interest were a kind of Sunday-school prize, instead of saying plainly that interest

was the payment for the loan of something useful. A world where distribution was according to capacity would be a world where there would be no great differences of inherited wealth, or of the opportunities of education, or of the opportunities of health and vigour. It would be a world where the total product was divided among the producers as nearly as possible according to the value of the individuals in producing wealth. As all these individuals, in early life, produce nothing whatever of economic importance, their claims would be equal. As they began to add to the world's wealth, they would begin to receive shares according to the value of their additions. A good deal of competition would remain, but the form of competition which consists in manœuvring for a monopoly advantage would diminish. Monopolies and privileges would tend to become less.

Such a world would probably be much more economically efficient than the world as it is now. But the most curious aspect of it is that it would in many ways resemble very closely the world of "distribution according to need" which at first glance seems almost to be its exact opposite.

In the world of to-day the distribution of wealth is broadly governed by inheritance with its consequences of all kinds, including training; and by competition tempered by monopolies and privileges. The competing units, whether individuals or groups, are constantly striving after monopolies of one kind or another. Competition tends to be a pathway to the securer position of monopoly. There was probably a greater proportion of competition of all kinds in the economic world of the nineteenth century than there is in the twentieth. And the effect of monopoly upon the distribution of wealth is in the main to establish the present differences and to increase them.

## CHAPTER XIII

### TRADE COMBINATIONS

COMBINED action in economic affairs is carried on by workers in the form generally known, in England, as the Trade Union. Employers and capitalists act in common through combines, trusts, federations, employers' associations, and so forth. The aims, in both cases, are chiefly economic, but both kinds of combinations aim at political as well as economic power. Usually, however, political power is sought as a means towards securing economic power.

The Trade Union is best explained through its history, which is a part of the history of the Industrial Revolution. The older craft guilds are not historically connected with the Trade Unions. The members of the guilds were chiefly small master-craftsmen, or craftsmen who would soon be in that position. The members of Trade Unions are mostly life-long employees, with little or no prospect of any but a wage income.

The early attempts at Trade Unions were made after Parliament, in 1757, repealed the Woollen Cloth Weavers Act of the preceding year, and decided on the policy of *laissez faire* : freedom of contract and free competition. The policy was but vaguely felt and expressed at first, but it grew more and more definite during the century that followed. (See list of dates in the Appendix.)

In 1800 Trade Unions were expressly forbidden. They were legalised in 1825. Then begins a series of



attempts at the formation of a great National Union of all trades. Some ideas which later were called Syndicalist were expressed at this time: the General Strike, and "the mines for the miners." Within ten years (1825-1835) these attempts at a large general Union had all failed. A new epoch was begun in 1851, by the formation of the Amalgamated Society of Engineers on a "new model." The Society was registered as a Friendly Society. There followed the first of a series of three judicial decisions against Trade Unions, all three being reversed by Acts of Parliament.

The first of these decisions was that a Trade Union could not protect its funds by registering as a Friendly Society. (The test case is known as *Hornby v. Close*, 1867.) It was reversed by the "Trade Union Funds Protection Act," passed in 1869. The second was the Taff Vale decision, 1900, giving damages of £23,000 against a Trade Union, after a railway strike. This left Trade Union funds again insecure, but their security was restored by the Trade Disputes Acts of 1906. The third decision, known as the Osborne judgment (1908), declared that Trade Union funds could not be used to support Parliamentary candidates or members. This was reversed, with limiting conditions, by the Trade Union Act of 1913.

This summarises the story of Trade Unions in its legal aspect. Meanwhile a complete change of political outlook took place. The earlier Unions were determined "to keep out of politics," but in the last quarter of the nineteenth century they supported "Liberal-Labour" members. At the beginning of the present century the Unions began to seek definite Labour representation in the House, independently of the other political parties. This decision resulted, a quarter of a century later, in the formation of a Labour Ministry.

During this quarter of a century, the Trade Union movement was subjected, from within and without, to

the test and shaking of the Syndicalist Movement, which reached England from France in 1910. The Syndicalists were not content to aim at higher wages, shorter hours, and improved conditions. Their aim was revolutionary : to abolish the wage system by open industrial warfare, and to secure control by the workers. "With the industries in possession of the organised working-class movement," wrote Tom Mann in "*The Industrial Syndicalist*," May, 1911, "the production and distribution of wealth will be arranged on conscious and systematic lines, and all the insecurity and misery caused by the present industrial and social anarchy may then be completely abolished." The method in so far as it related to Trade Unions, was described thus by another Syndicalist writer (Guy Bowman), 1913 : "We propose that the workers should first transform their *Trade Unions* into *Industrial Unions* by a process of amalgamation ; then bring about a Federation of Industrial Unions, on the one hand, and a National Federation of Trades Unions, on the other hand ; and finally we propose to confederate these two national federations thereby bringing about a General Confederation of Labour, including all producers and all distributors, both being the consumers."

This question of the reorganisation of the Trade Unions has also been taken up by the Gild Socialists (1906 and afterwards), and notably by Mr. G. D. H. Cole. He points out that an industry such as Shipbuilding and Engineering contains within itself many crafts—carpentering, painting, ironfounding, smith's work, pattern-making, and so forth. 'The men in these crafts belong to different unions, and so cannot easily take common action in a dispute relating to the industry. This question of organisation is likely to be discussed by trade unionists for some time to come.

The history of the Trade Union movement is chiefly a history of strife and struggle. During its course the Unionists fought in the legal and political area, as

we have seen. In the world of economic practice, they have opposed the employers and capitalists, individual or united, in a struggle for a greater share of the total product of wealth. In the matter of economic theory, they found themselves, especially during the nineteenth century, at variance with the professors of the science. The case for the Trade Unionists, as against the earlier economists is stated in Webb's *Industrial Democracy*, Chapter I, Part III : "The Verdict of the Economists." The attitude of the Professor of Economics, to-day, towards Trade Unions, is expressed, in rather sympathetic form, in the last chapter of Marshall's *Economics of Industry*.

The opposition of the earlier economists to Trade Unions is often regarded as mere stupidity, stirred by class prejudice and mixed with a little malice. But this is quite incorrect, though natural in an age when the conditions of earlier knowledge have been forgotten. The economists of the eighteenth and nineteenth centuries, and still more the politicians, manufacturers and social workers who learned (imperfectly) from them, regarded political economy as a branch of natural law, self-acting and certain. They had not yet had time to separate natural causes from those brought about by human action. They were convinced that economic matters, if left to themselves, would not only work efficiently but would also work justly. Thus an Inspector of Schools, in a book called *Politics made Easy for All Her Majesty's Subjects, especially the Electors* (1854), says : "Let even peasants, every peasant in this realm, be taught, and made firmly to believe, that if Wealth is created in sufficient rapidity . . . he and his will about as surely get their fair share of it, as they get the dews from Heaven or warmth from the sun."

Moreover, in one main contention, the economists have proved to be right, though not always in the terms they used. That contention was over the power of

Trade Unions to raise wages. Moderately stated, it would run thus : In a world of free competition and free

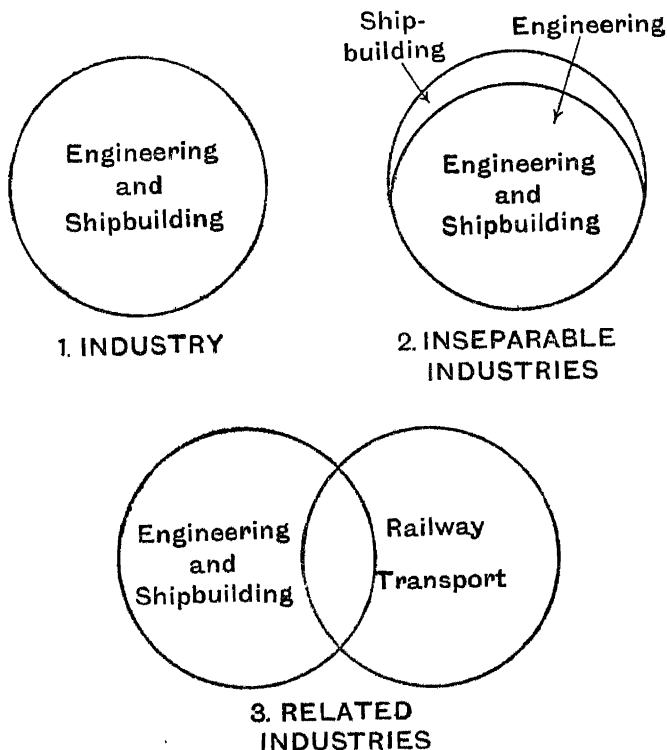


FIG. 2.—Types of Trade Unions : I. Industry.

(Selected from a series of diagrams by G. D. H. Cole, in *An Introduction to Trade Unionism*. Allen & Unwin and the Fabian Research Dept. 1918. By permission. The book is now out of print, being replaced by *Organised Labour: an Introduction to Trade Unionism*. 1924. Labour Publishing Co.)

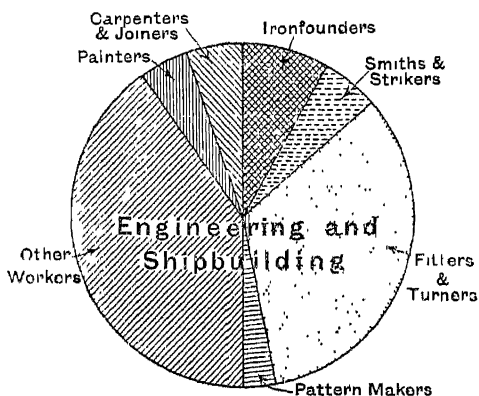
labour, wages are determined by the forces of Supply and Demand. In comparison with these forces, the power

of Trade Union action to raise the *general* level of wages is small. To the broad truth of such a statement the history of the last ten years bears witness. Between 1914 and 1919, the demand for labour of all kinds increased, and the supply was diminished by world-wide conscription of men. By the year 1920, British Trade Unions reached a membership of  $8\frac{1}{2}$  millions, having nearly doubled their size in six years. The coming of peace, its conditions, the return of the men, the closure of Russian and German markets, the diminution of other markets through impoverishment, rapidly reversed the conditions of Supply and Demand. The Trade Unions, despite their numbers, were unable to check, except slightly, the tremendous fall in wages which now began. During the years of 1921 and 1922, there were "cuts" in the total wages bill of over £10,000,000 per week. By a parallel and connected movement, Trade Unions membership fell from  $8\frac{1}{2}$  millions (1920) to  $5\frac{1}{2}$  millions (1923).

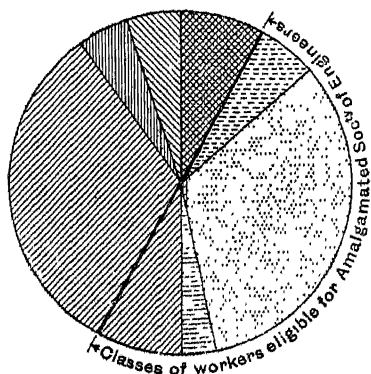
We should notice, first of all, that in the statement given above there is the phrase: "in a world of free competition and free labour." Broadly but incorrectly, the world of to-day may be so described. But it is a world where free competition is being rapidly replaced by monopoly action, and free (individual) Labour by organised labour. A Trade Union is in its nature an attempt to abolish freely competing workers in a trade, and to form a group making a collective bargain.

In the second place, it should be noted that though the powers exercised by Trade Unions are unable to cope with the great ebb and flow of Supply and Demand, yet they can and do influence smaller fluctuations. Their total effect upon wages, hours of labour, conditions of work, has been very great, and, on the whole, it has increased the common well-being. Their contentions, on the human side, have proved to be sounder than those of their opponents. They have increased the self-

respect of millions, and have lifted masses of men to a higher level of life. These are gains, human, economic,



1. CRAFTS WITHIN AN INDUSTRY



2. KINDRED CRAFTS WITHIN AN INDUSTRY

FIG. 3.—Types of Trade Unions: II. Crafts.

national, which far out-weigh all the mistakes and losses that have occurred while they were being secured.

The belief of the earlier economists that workers could

not raise wages, nor employers lower them, was generally based upon the Wage Fund Theory. The amount and

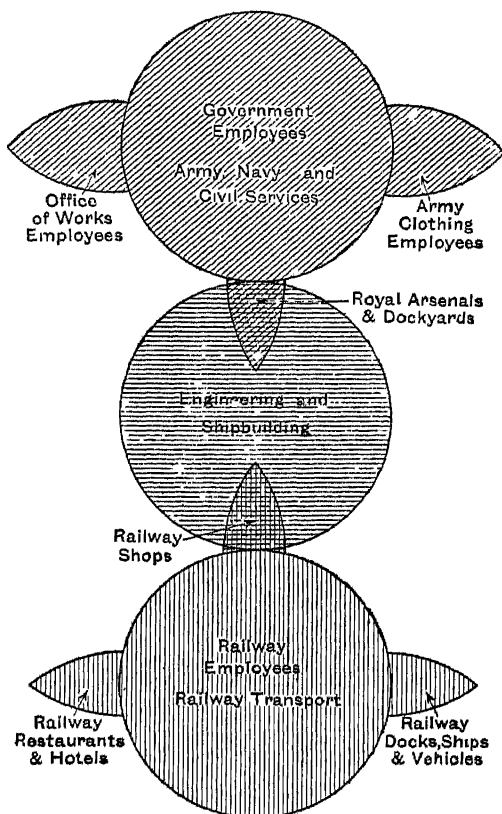


FIG. 4.—Types of Trade Unions: III. Employment in Relation to Industry.

proportion of capital to be spent in wages was supposed to be fixed. If, let us say, some skilled workers, by combined action, secured for themselves a higher total

of wages than "natural laws" had allotted them, there would be so much less for other workers. Such a group, then, only secured a temporary gain at the expense of their fellow-workers. This theory and this argument are held to-day by not one economist of repute. Even when the Wage Fund Theory was most generally held, it was rejected by many writers on economics—Thorold Rogers, Cliffe Leslie, Ruskin, Longfield, Thompson.

Another statement of economists that aroused criticism was that wages could only rise if profits rose first. This seems absurd in the face of such facts as that the years 1920—24 have been bad years for "wages," but very good for "profits." But the statement of the economists assumed the working of free competition. This would have brought profits to the minimum necessary to attract investment; and therefore this minimum must be increased before any advance in wages became possible.

A much wilder statement was made by a few early economists: that all or nearly all profits were the product of "the last hour" of each day's work. This nonsense was never generally accepted.

Trade Unions come into public notice chiefly in connection with strikes. This, however, gives a false view of their activities. According to the financial statements of about 100 Unions for a period of fourteen years (see Appendix) sixty per cent. of Union funds is spent on Unemployment, Sickness, Accident Superannuation, and Funeral "Benefits," and about thirteen per cent. on trade disputes. The Unions have been more effective—and more active—in preventing strikes than in "fomenting" them.

The methods of the Unions are related to their aim and policy. Many contradictory accounts of the aim and policy of the Trade Unions have been given, by friends and by enemies, from within and from without. If, however, we put these aside, and consider the methods



that are used, we are likely to have a fairly correct idea of the aim and policy that are implied.

The methods of the Unions have been very fully dealt with by Mr. and Mrs. Webb, in *Industrial Democracy*. There are two chief "devices," Restriction of Numbers and the Common Rule. The device of Restriction of Numbers is one of which Mr. and Mrs. Webb truly say that it "lowers the level of productive efficiency all round." The only excuses that Unionists can give are these: First, that it is often forced upon them in self-defence. Secondly, that it is at least humanly preferable to the horrors of unrestricted competition in the labour market. Thirdly, that it is freely used, though less generally attacked, elsewhere than in Trade Union circles. It will be seen that these excuses are of very different values.

The second device, that of the Common Rule, is, "from the workman's point of view, always the enforcement of a minimum, below which no employer may descend, never a maximum beyond which he may, if he chooses, offer better terms" (Webb). The minimum may be one of wages, hours of labour, safety, health, or general conditions of work.

Besides these two "devices," the Webbs give The Method of Collective Bargaining and The Method of Legal Enactment. The latter concerns the Unions in their political aspect, where they seek through Parliamentary effort to secure economic as well as social ends. The former contains in its history the long and not yet ended struggle to obtain "recognition" for the Union as the medium of conference, discussion, bargaining, and agreement with employers. To get a Union "recognised" is the necessary first step towards its real effectiveness, and some of the fiercest labour conflicts have been fought upon this claim.

Combinations of employers act more privately than those of workers, and can more easily secure their aims

by indirect methods. In so far as there is a value of produced wealth to be divided or distributed, their claims cannot but be opposed to those of the workers, on the assumption that each is entitled to whatever each can legally secure. Their interests are alike in securing a large production of wealth: they are opposed when it is a question of distributing the wealth produced.

The British organisation of employers which comes most before the public notice is the Federation of British Industries, with a membership of 2,000 firms and associations (totalling 19,000 firms altogether, large and small), and representing a capital of over £5,000,000,000. The Federation, however, claims that "it is precluded by its constitution from taking any part in regulating the relations between employers and employed. It deals solely with commercial, financial and technical questions." As an organisation, it does not normally take part in industrial disputes. It took an active part, however, in the Railway Strike of 1919, and in the Miners' Lock-out of 1921. A curious reversed parallel here appears. The Trade Unions began by confining themselves to industrial activities, and were more or less drawn to the use of political methods by the close relation of political and economic affairs in modern life. The Federation of British Industries, early in its career (it was founded in 1916) was equally drawn to concern itself with those "relations between employers and employed" which it had declared not to be its concern. And this occurred at a time when the Federation had achieved great success in its Publicity and Parliamentary work. The weekly bulletin of the Federation claimed for the organisation a very great influence in the changes in the taxation and the abandonment of Government Reconstruction Schemes during the years 1920-1923. Politics and economics can be isolated in the study; but in the world of action they are very closely linked together.

## CHAPTER XIV

### ECONOMICS AND THE STATE

THE State appears in economics in four aspects :

*Firstly*, as the maker and maintainer of the conditions necessary to the production of wealth.

*Secondly*, as the maker and administrator of rules under which economic activities shall be carried on.

*Thirdly*, as manufacturer or trader, competitive or monopolist.

*Fourthly*, as claimant to a share in the product.

This last will be dealt with in the chapter following. The other three we may take in order as they stand.

The work of the State in securing the conditions of private property and of trade and manufacture is summed up in the phrase "law and order." Private property is held by force of arms, by custom, or by law. Custom becomes in time embodied in law; and what is held by force of arms (by individuals) is not held long unless it becomes sanctioned by law. Further direct aid is given to economic activities by the making and maintenance of roads, freeing the seas from pirates, the establishment of postal and telegraph systems, the collection and publication of commercial and industrial statistics, forestry schemes, the making of canals and the "canalisation" of rivers, the building of railways, the fixing of weights and measures. These are not exclusively State undertakings, but in one country or another they are all of them State affairs.

Less direct aids are systems of education and health legislation, both of which improve the efficiency of the producers of wealth. There is a further action, whose significance is often overlooked. As modern industry is carried on, work is not continuous in all trades. There are not only periods of unemployment, reckoned in years (such as 1921 to 1924 +), but there are seasonal changes. Bricklayers are unemployed in frosty weather, some gas-works men are unemployed in summer ; and so forth. Private employers often need varying numbers of employees at different times. The State, by means of Poor Laws and Unemployment schemes, undertakes part or the whole of the cost of supporting these workers until the private employers need them again. It is a service of humanity rendered to the workers concerned ; and a service of considerable cash value rendered to private employers. There is a sound argument for such a service : it is to the general interest that it should be done, over and above all reasons of humanity.

Our second view of the State, as maker and administrator of the rules under which economic activities are carried on, partly overlaps the first, as commonly happens with such divisions of convenience. The rules of the State take the form of laws, and codes of law have concerned themselves very greatly with economic affairs since codes were made and written. A large part of one of the earliest known Codes of Law, that of Hammurabi of Babylon (about 2000 B.C., or earlier), is concerned with economic affairs ; and in this it does not differ from other codes, ancient and modern. Many of the clauses of Magna Carta are purely economic.

The State has fixed wages directly or indirectly through Trade Boards. In British industry there is a gap between 1824, when Parliament ended its former efforts to fix wages, and 1909, when through the Trade Boards Act it took up the work again in another form. The interval indicates the period of "*laissez faire*," when the doctrine

of non-interference of Government in economic affairs stood at its strongest. Many writers during that period were confident that the State would withdraw almost completely from interfering with economic matters. Not only were they wrong in that respect, but they exaggerated the triumph of the "*laissez faire*" doctrine, even when it was most triumphant. There was always, even during the nineteenth century, a great deal of "interference" by the State. It has not always been intelligent. It never exceeds the general intelligence of the educated men of its age. It has its failures and its triumphs. The Trade Board Act of 1909, for example, when applied to the chain-making industry, raised wages on the average 35 per cent. while increasing prices 15 per cent. (allowing for the change of money value), between the years 1909 and 1913; and without causing any unemployment. (See *Studies in the Minimum Wage*, No. 1, Bell and Sons, 1914.) Against such successes must be set the delays, vexations, and hindrances that have undoubtedly been caused by unintelligent State action.

The great and increasing mass of legislation dealing with Customs, Excise, Health and Unemployment Insurance, Factory Conditions, Hours of Closing Shops, Shipping, Railways, Dangerous Trades, Hours of Labour, Patents, Property Laws of all kinds, Mines, the Loading of Ships, Licences, House Building, Rent, Monopolies (such as Gasworks), Fisheries, Air Routes—these remind us, when we think of them in the mass, of what is simple fact, that the State claims to have, and to a large extent actually has, a "right of entry" into nearly every kind of economic activity in which men are engaged. Rightly or wrongly, the States of the civilised world are moving away from the idea of "*laissez faire*."

Except in Russia, the modern State has not yet played a great part as a direct manufacturer or trader; and, where it has done so, its success has been modified by failure. To say that the State will achieve success in this

direction in the future is an act of faith ; to declare that it will never do so is an act of unfaith no less and no more based on grounds of certainty than the other. For both views, facts of history may be quoted ; for both, reasonable expectations may be entertained. The argument is generally clouded over by the mass of interested beliefs, of one kind or the other, that hinder clear vision.

Many theories of the State have appeared : theories of its origin, its nature, its true place. Of these, the simplest and most practical is that the State is a human institution, faulty, constantly growing and changing, that has been called into existence by men, often acting half-consciously, to supply a human need. By this theory, the State is neither sacred nor satanic, and no more mysterious than a cricket club or a school. This theory suits the State in its economic aspect particularly well. Men have revered the State as half divine ; others have cursed it as the embodiment of crude force. But no Englishman dances round a State pillar-box, either in reverence or in fury ; no Frenchman looks with awe on a box of State matches, though he may at times display a little Gallic fury at them. Economics is a practical affair, and affairs of State in economics are practical also.

The justification of the State, by this theory, is also the cause which brought it into being, the reason why it still commands support. That justification, that cause, that reason, are one : public utility, or the general advantage. It is to secure the general advantage that the State exists ; and history shows how sharply States are brought against this test. In the last war, for example, the three Imperial States of Eastern Europe fell, not because they were convicted of wickedness, but because they were convicted of inefficiency.

By this test of the public advantage, also, will all the efforts and adventures of the State be judged. Neither a passionate belief in Socialism, nor a passionate fear

of it, will in the long run decide whether the State or private-profit concerns finally own and administer railways and coal-mines. In economic affairs, the practical economic argument will in the long run prevail.

This does not mean, however, a test of profit-and-loss reckoned in cash. The public advantage is not always expressed in balance-sheets. Hyde Park, in the hands of a group of builders, could no doubt be made to yield a handsome income; but that would not necessarily be an addition to the real income of the nation. The question of the use of this piece of land is an economic one; but it is a question that must include health, hopefulness, and happiness in its answer; for these things are parts of the public advantage. We have already seen that pure economics is not concerned with health or morals; and we have kept somewhat strictly within this field. But all knowledge is one, and a complete separation of economics from other aspects of life is not possible. We should probably lose more than we should gain by making it possible. And when we touch upon the economic services of the State, the questions of justice, morals, and health not only must be touched upon, but they become more important than they are even in the economics of private individuals. Private companies may pay less than what the opinion of the time calls a living wage; and sometimes they do so. But a State cannot, for it is upheld and made by that very public opinion of its time.

The State exists by the will of the community, to render services to the community. It is in terms of service that the economic activities of the State, like its other activities, are best made evident. If we keep chiefly in view the economic side of the State's activities, we may set out these services of the State in an economic or semi-economic sequence.

*First*.—It falls to the State to supply those services

which are not supplied, and are not likely to be supplied, by private enterprise; chiefly because they are not profit-making. Such are: the provision of parks, open spaces, museums, art galleries, public libraries, embankments and parades. Some of these, such as art galleries and museums, are among profit-producing concerns; but most of the art galleries and museums of the world, do not, and could not pay their own expenses. Without State or municipal help, the majority of them would be closed.

*Second.*—There is a large class of wants, met by services that are not supplied without charge, but are not wholly supported by the charges made. These, in one form or another, are subsidised by the State. The extent and importance of this group of State services are often disguised by the slow growth of the State's action, and by the methods of payment used. Just as a man often forgets, when he buys an ounce of tobacco, that more than half the price is a State tax, so also he forgets when he pays his children's fees at a secondary school, that he is only paying part of the cost of their education. The other part is met either by State and County grants, or by the proceeds of property bequeathed to the school, or by both. In fact, scarcely any one pays the whole cost of his own or his children's education, whether primary, secondary, or university. The fact that fees are not paid in primary schools allows it to be seen clearly, that the service is provided by the State. The fact that fees are paid in secondary schools and in universities gives the erroneous idea that in these cases the parents of the children pay the cost of their education; but, in fact, they only pay part of the cost, in all but a very few cases indeed—chiefly those where the education is carried on wholly by privately engaged tutors.

This is a case where the standard of education demanded by modern civilisation is beyond the financial powers of the mass of the people—of nearly all the



people—in modern States. The type of parent whose children fill the primary schools could not possibly pay the full cost of the education which the modern State demands. The parent whose children fill most of the secondary schools is in a like case ; and the same thing is true of the parents of most of the students at the newer universities, and of a large number of those at the older universities. The community makes a demand beyond the capacities of its members ; and therefore the community is constrained to give aid, directly or indirectly.

There is another human want, for which the demand (in quality) made by the community has outrun the powers of great numbers of people—houses. Here again, it is not generally grasped that very large numbers of people are incapable of buying or renting a house of a type such as meets the modern idea of decency, comfort, and health. Recent events in England are making clearer this state of affairs ; but it is not by any means a post-war problem. The housing of the working classes was one of the problems of the later nineteenth century, and many schemes were put afoot, nearly all of them having some element of financial help.

Agricultural labourers have long been housed—however badly in many cases—at less than the true rental value of the houses. Such devices have hidden the fact which now begins to be made plain : that housing is, and has long been, one of those community-wants which the State cannot leave entirely to unaided private effort. The State's help may be looked upon as a response to public sentiment, or as a form of insurance against the dangers of degradation and insanitary conditions ; and this second explanation is clearly within the scope of economics, at least in its effects.

*Third.*—There is a group of services which the State keeps in its own hands because they are so open to abuses and objectionable developments if left in private

hands that the community would not tolerate such an arrangement. Of these we may take as example the navy and army, and the prisons. There have been times in history when each of these services has been hired, not owned, by the State. On the border-line we have the case of lunatic asylums, which are increasingly owned and managed, or increasingly supervised, by the State.

*Fourth.*—Where a service is in its nature a monopoly, the State is appealed to as the guardian of the public interest. Water-supply and gas-supply cannot be dealt with by rival companies in the same area. The same thing is largely true of tramways, omnibuses, and railways. State action in these cases has taken many forms—(1) direct ownership and management; (2) ownership, side by side with the method of farming or leasing out the property to a private company; (3) limitation of profits; (4) legislation against the formation of monopolies.

*Fifth.*—Sometimes the State renders services that cannot possibly yield a profit, as in the cases first mentioned in this list. The contrary cases would be those where the State entered the field of economic enterprise, mainly and chiefly for the same reason as a private firm; that is, to make profit. There are not many such cases. But there are many cases, both of State and municipal enterprise, where the motive is the combined one of (a) public service and (b) making a profit. Of such cases in this country, the Post Office is the most noticeable example.

We should note, in the first place, that the carrying of letters and parcels is not necessarily a monopoly service. Rival companies might compete for the service; though no doubt, as the experience of the last hundred years suggests, they would rapidly merge into a few companies with a mutual understanding about charges, or into a practical monopoly. The Post Office is a

monopoly-service only because the State makes it so, refusing to allow private firms to enter the field. It is profitable, and it is reasonably efficient.

It has been urged, on different grounds, that the Post Office ought not to make any profit at all. One reason given for this view is that the service should be regarded purely as a service, and that the profit should be got rid of by a reduction of charges. Another reason given is that this profit is really a hidden form of taxation, of which we shall speak in the next chapter. The real test would be: would a private company (whether monopolist or not) perform the service more cheaply? If not, there is no taxation involved.

The nature of the Post Office service is made clear by this device of imagining it left to private enterprise. Judging roughly from a general experience of the methods of firms, what changes might we expect? We may mention three. (1) It has been calculated that the carriage and delivery of letters in London costs only a small fraction of a penny. London letters, posted in London, could be carried at a halfpenny, with profit. A private firm might fix a special low rate for London; and the same argument would apply to all densely crowded areas. (2) For the second point, let us consider the small post offices in lonely districts. From a business point of view, it is quite likely that many of these are "not worth their upkeep," and under private management these might well be closed. (3) Thirdly, the sending of letters to distant parts of the Empire for the same rate as is charged for a letter carried to the next street, is established on the basis of community rather than on the basis of business economics. Under private management, charges for long distances would probably be increased.

*Sixth.*—Lastly, we may mention those services of the State which are a direct result of there being a State at all. This includes the actual office-work of the various

departments, carried on by the Civil Service. The growth of the British Civil Service has been exceedingly rapid ; and its parallel growth in efficiency and honesty has been still more remarkable. Its faults have been magnified and its virtues taken for granted. The story of its rise and of its actual working makes somewhat dull reading ; and that has led rather generally to an attitude of ungenerous complaint.

## CHAPTER XV

### PUBLIC FINANCE

IN all economics there is getting and spending. States, being great spenders, are also of necessity great getters. Thus State economy at its basis, is of the same nature as the economy of private firms and of individuals. Nevertheless, at the outset we may notice certain differences.

In the first place State economy is fixed (in a round-about way through ballot boxes and parliaments) by the general public. Being once so fixed, however, it becomes compulsory to the individual. The price of soap you *may* pay, or you may, in preference, go soapless; but the price of government is a price that you *must* pay. There is no going without it, except in the wilderness.

In the next place, the aims of the State are not chiefly and immediately economic. They are: the safety and security of the citizens; the maintenance of the supremacy of law over private warfare; the interests of the whole as against the interests of individuals; the establishment of conditions of health, vigour, and the standard morality and conduct of the age.

Thirdly, the State is not so closely compelled as is the private citizen to "cut the coat according to the cloth." The State has not, indeed, an unlimited supply of cloth (or money) waiting upon demand. But by increased taxes and by loans, the State can issue orders very widely for more cloth, when it decides on having

a finer coat. It is unfortunately true that the most expensive of these coats are uniforms for war; but the fact remains that the spending-limit of the State is somewhat indefinite, and is often, for the moment, quite out of sight.

Taxes have been described as the part of individual incomes that is spent communally, and this description may be extended over the whole field of public finance. It is household income and expenditure, where the household is a nation. The comparison is not quite exact, but it is fairly close. Some points of difference have already been outlined. In both cases a broad division appears, into expenditure and revenue, outgoings and incomings. In the case of public finance, it is usual to consider them in this order, for the reason given in the first of the three points above. A State usually first decides to spend so much, and then considers how to get the money. A private individual generally thinks on the question in the opposite order.

An examination of the figures of the Budget of 1924-25 will explain "how the money goes." (See Appendix, page 273.) Among these are three very large items, which for clearness we may set down, in round figures, thus :

				Millions, £
National Debt Services	..	..	..	350
Defence Services	..	..	..	115
Civil Services	..	..	..	228

The 51 millions entered for Post Office Services are of a different nature. They bring in a direct money return for the year of 53½ millions. The 11 millions expended by the Customs, Excise and Inland Revenue Departments are similar to this. They are offset by a revenue of nearly 238 millions from Customs and Excise. In the latter case, the expenditure consists of the salaries and equipment of the officers and officials. They may

be described as being the cost of collecting the customs and excise. The two and a half millions profit from the Post Office does not resemble the difference between income and outgoing in the case of Customs and Excise. These are definitely taxes although they are of the kind called Indirect. But modern economists do not reckon the profits of the Post Office as a tax, and in the Financial Balance Sheet the proceeds of the Post Office are rightly entered as Non-tax revenue.

The greater part of the revenue, however, comes from other sources, the largest single item being the proceeds of the Income Tax, amounting in itself to slightly more than a third of the whole revenue. The Income Tax, Super Tax, and Death Duties together produce now nearly half the revenue. We may set out the main items thus :

Main items are :				Millions, £	Millions, £
A.	{	Income Tax .. ..	..	265	382
	{	Super Tax .. ..	..	61	
	{	Estate Duties .. ..	..	56	
B.	{	Customs .. ..	..	102	238
	{	Excise .. ..	..	136	

These figures account for the 620 out of the total estimate of 794 millions. For the statement is an *estimate* of the expected revenue and expenditure from April, 1924, to March, 1925 : an estimate made at the beginning of that period.

The division we have just made (A and B, above), roughly corresponds to the division of taxes into (a) direct, and (b) indirect. This last division is connected with half a dozen arguments about taxation in which economists, at one time or other, have taken different sides. Some of them are still unsettled questions, whilst others, once in the same position, may now be regarded as settled. As they are or were questions, we may consider them in that form ; and it will be convenient to set them out,

broadly speaking, in their order of historical development.

*Question I. What are the sound principles of taxation ?*

The most famous of many suggested principles of taxation are the four "maxims" of Adam Smith. Briefly, they are, the principles, "canons," or maxims of

1. Equality.
2. Certainty.
3. Convenience.
4. Economy.

These are given more fully in the Appendix. It will be necessary, however, to set out here the first maxim in full, because its wording was the basis of a discussion lasting for a century :

"The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities ; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."

It was urged by some critics that the two parts of this sentence contradicted each other ; that payments in proportion to income (or "revenue") are not in fact payments according to "ability to pay." This criticism is based upon the Law of Diminishing Utility which we have already discussed. According to that law, a man with £1,000 a year is able to pay more than twice as much as a man with £500 a year, because his second £500 is of less value to him than the first. If, then, a tax of £10, let us say, is charged on the first £500 of income, more than £10 should be charged upon the second £500. Therefore, in the phrases used, taxes, if they are to be levied according to "ability to pay," must not be proportioned to income, but graduated in an ascending scale. We may compare and contrast proportional and graduated scales of taxes upon income



by the tables set out below. (Graduated taxes are sometimes called Progressive Taxes.)

## A Proportional Scale.

Per cent.

Tax.

Income.

8'4

£8'4  
£16'8  
£25'2  
£33'  
£42'5  
£50'4  
£168'0  
£420'0  
£840'0

£100  
£200  
£300  
£400  
£500  
£1,000  
£2,000  
£5,000  
£10,000

Total Yield £1,604'4

## A Graduated Scale.

Per cent.

Tax.

1 £1  
1½ £3  
2 £6  
3 £12  
4 £20  
5 £50  
7 £140  
8 £400  
10 £1,000

Total Yield £1,632

The yield in the two cases is nearly the same. The difference lies in the fact that men with smaller incomes pay a smaller share of the total under a graduated scale than they do under a proportional scale. In this example, the granting of exemptions has been omitted, to simplify the argument.

Graduated taxes are not a modern invention. There was a scale used in ancient Athens, that was equivalent to 4*d.* in the £ on incomes of £60 a year, rising to over 9*d.* in the £ on incomes of £150 a year. But later, and especially in the eighteenth and nineteenth centuries, the idea of proportional taxation got so firmly established that graduated scales were generally condemned as unjust. The last (3rd) edition of the standard British work on Public Finance (Professor Bastable's) argues strongly against progressive taxation, as being (1) arbitrary, (2) likely to encourage evasion, (3) likely to check saving.

The first of these objections still stands. Scales may be framed in different degrees of steepness. One economist, Pareto, has devised a "law for graduating incomes," but it offers little guidance to Chancellors of the Exchequer. (It is described in the *Statistical Journal*, 1914, and in the *Quarterly Journal of Economics*, 1914.) In practice, the reasons impelling a Chancellor and a

Parliament to adopt one scale rather than another are practical, *i.e.* (1) the need of money, and (2) the support of public opinion. These practical reasons explain the different scales of which examples are given below ; but what test can establish any one of them as juster or more beneficial to the nation than are the other three ?

#### DEATH DUTY SCALES.

Estate,	1894. per cent.	1907. per cent.	1909. per cent.	1920. per cent.
£1,000	2	2	2	2
£10,000	3	3	4	4
£100,000	5½	5½	8	14
£1,000,000	7½	10	14	20

The practical reasons that we have mentioned : the need of money and the support of public opinion, contain in the rough the theoretical argument. For public opinion draws its support from some form of respected authority, whether it be the authority of custom, antiquity, hereditary position, academic learning, *force majeure*, decisions of experts, newspaper leading articles, or the acceptances of scientific experimental workers. In affairs of taxation important elements of authority lie in the opinions of economists, that is, when they are strengthened by the approval of politicians, business men, religious bodies, or, above all, financially interested individuals and groups.

Now, the strength of the belief in proportional as against graduated taxation, on its theoretical side, lay in what is called the "Benefit Theory" of taxation ; and that in its turn rested upon the idea and definition of what is the real nature of taxation.

The Benefit Theory was vigorously set out by Hobbes (1588-1679) in his *Leviathan*, and in other writings. The benefit that all receive, he says, is life, "equally dear to poor and rich." Taxes, therefore, should be equal, "saving that the rich, who have the service of the poor, may be debtors, not only for their own persons, but for many more."

The argument, as developed later, was this : government protects property, and citizens get the benefit of this protection exactly in proportion to the property they have. Taxes are the price paid for the protection given by the government, therefore taxes should be levied in proportion to property.

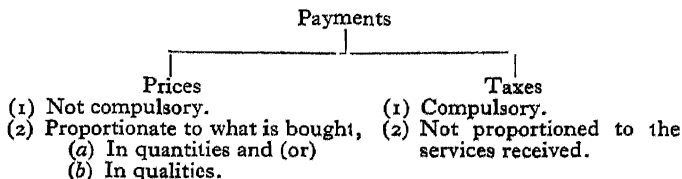
The Benefit Theory is embodied in the practice of local rating where it is less in conflict with true "ability to pay" than in national finance. This is because local expenditure upon roads, lighting, drainage, does in fact benefit the owners of property in the district roughly in proportion to the property they hold there. But if all taxes were to be paid in proportion to benefits received, then children should pay more than adults, for the government protects them more.

The benefit theory rests upon the idea that a tax is a price, the price of government ; and this is untrue. A tax differs from a price in two important particulars :—

(1) It is a compulsory payment, while a price is voluntary. We are permitted to abstain from buying beer and bread, but we are compelled to pay taxes.

(2) It is non-proportional. Twice the price of a glass of beer will buy two glasses, or one glass of better beer. Prices are (roughly or exactly) in proportion to quantities or qualities. But taxes are not so. Doubled taxes do not guarantee for us either a double share of government or a better government.

Taxes are compulsory payments made to a governing body, not guaranteeing definite proportional services in return. They compare with prices thus :



This definition and idea of the nature of a tax first clearly appears in Professor Sidgwick's "Political Economy" (1883). It is now generally accepted.

The fall of the old idea of a tax as a price, and, of the "benefit theory," removed the foundation of proportional taxation. The examination of the Law of Diminishing Utility prepared the theoretical case for graduated scales. But the exact "steepness" of a graduated scale is still a matter of opinion.

Professor Bastable's second objection, the encouragement of evasion, has not proved to be connected with graduated any more than with proportional taxation, except in this sense, that high taxation of any kind encourages evasion. The "evasion" argument is really an argument, and a sound one in its limits, against any kind of heavy taxes. The third argument, that saving will be checked, has not been justified by facts. Savings still increase, and the only noticeable change is that they come from large incomes (as compared with small ones) more than ever; for there was and is always this difference that saving becomes easier as incomes grow larger, until at last saving becomes automatic when the income is too great to be "consumed."

Another test of "ability to pay" that has been suggested, is that of "equal sacrifice." John Stuart Mill wrote that "equality of taxation as a maxim of politics means equality of sacrifice." Professor Edgeworth suggests that the aim in levying taxes should be to secure the minimum sacrifice in all cases, as far as possible.

*Question II. Is taxation an evil (whether a necessary or an unnecessary evil)?*

To the philosophic anarchist, taxation, like the State which levies taxes, is an unnecessary evil. Many economists (and still more politicians) in the eighteenth and nineteenth centuries, took the view that taxes were an evil;

and therefore they were in favour of reducing taxes to a bare minimum. At the opposite pole is the view that taxes represent the part of our incomes that are spent in common, and on the whole well spent.

The modern view is that taxes are necessary ; that they are evil (1) if unfairly levied, (2) if they are levied so as to diminish productive power, (3) if they are spent for less wise purposes than they would have been spent in private hands. But this answer leaves many discussions open. Generally, economists to-day do not take the " necessary evil " view of taxation.

*Question III. What forms of taxation are desirable, and what forms are undesirable ?*

This question raises another : what forms are possible ? In the first place we may set out three forms :

- A. Single or Multiple Systems.
- B. Direct and Indirect taxation.
- C. Taxes on Property and taxes on Income.

The three forms, in many cases, overlap.

A. The Physiocrats were in favour of a single tax, to be levied on land, and Henry George, in his brilliantly written book "*Progress and Poverty*" (1880) revived the " Single Tax " idea. His plan is " to make land common property " by taxing it to 100 per cent. of its value, whether by gradual steps or not. In his own time, it was held by many that the proceeds of such a tax would make it possible to abolish all other taxes. This is not now believed by many people, but the increase of capital wealth, and the increased total of taxes, leave his main claim practically untouched ; that since no man made the land, no man should be permitted to own it. He should be allowed its use only, on payment of rent to the State. The argument is one concerned with the idea of human justice, and it is received or rejected according to the different ideas of justice that

different persons hold. The need and rightness of a just form of compensation, in the event of a change, is very generally claimed and admitted; though there are differences as to the form and amount of compensation.

B. During the last two generations in this country, the proportions between Direct and Indirect Taxes have been reversed. (See Appendix.) In a Protectionist country, indirect taxes largely take the form of customs duties. In a country inclined towards free trade, customs duties on goods imported are balanced by excise duties on similar goods produced at home. This is usually expressed in the phrase: "Taxation for revenue only" (*i.e.*, not for purposes of protection). Both Protectionists and Free Traders, however, are concerned with two things: Protection and Revenue, or Free Trade and Revenue. Even a comparatively Free Trade country like Britain gets nearly 35 per cent. of its total tax income from customs and excise duties. (In the 1924 Budget Estimate, out of £M686, there are expected £M102 from customs duties, and £M136 from excise duties.)

The general argument against taxes on commodities is that they make goods dearer, which is disadvantageous to the poorer classes. A further argument is that such taxes cannot easily be graduated, as can readily be done with direct taxes. This also is a poor-and-rich argument. A third, but rather cynical argument, is also sometimes used. Indirect taxes are hidden in the price of goods bought, so that people pay indirect taxes willingly, because they are not aware, on most occasions, that they are paying taxes. This is a bad argument in ethics. It is only acceptable in politics of rather a low kind. Taxation by camouflage is a low ideal of citizenship.

A fourth argument, once freely used, is that indirect taxes are voluntary. If a man does not wish to pay taxes on wine, tea, coffee, sugar, beer, or whatever is taxed, he can escape the tax by doing without the goods. But

plainly, this is a very limited freedom that is offered him, and one that varies according to the number and the kinds of things that are taxed.

The fall of British indirect taxes from 73 per cent. in 1841 to 50 per cent. in 1903, and the rise of direct taxation from 27 per cent. to 50 per cent., in the same period, gave birth to a theory, after the "halfway house" of 1903 had been passed, that it was a principle of sound finance for direct and indirect taxes to "balance one another." But no such principle is known to economists. It is a creation of certain journalists and politicians.

C. Property taxes have been largely replaced by income taxes, in modern times, chiefly because income has become a more convenient measure of wealth than property. Even in such cases as the Estate (Death) Duties, which are assessed on property, arrangements are made by which the payments can be made out of income.

The forms of taxes, as expressed in modern practice, may be set out thus :

I. Taxes directly levied on persons,

(a) On income,

(b) On properties and incomes bequeathed.

When a rich man dies, he bequeaths his property. It is of greater social significance that he bequeaths the right to draw an income.

This section includes Income Tax, Super Tax, and Estate (Death) Duties.

II. Taxes (and rates) paid by persons owning or renting land or buildings.

The bulk of the Local Rates falls under this head.

III. Taxes paid by persons engaged in certain activities :

Stamp Duties.

Motor Vehicle Duties.

Entertainments Tax.

(Excess Profits Tax.)

IV. Taxes indirectly paid by the consumers of certain goods.

Excise Duties.

Customs Duties.

As to the desirability or undesirability of the different forms of taxation, various disputes have arisen. Some of them have already been touched upon. The arguments, however, are not confined to economics. The economic argument for free trade, for example, is in itself stronger than the economic argument for protection. Most economists, even in protectionist countries like France, incline towards free trade. But the strength of the argument for protection lies in the powerful sentiment of patriotism or nationalism. To protect a national standard of life is a good aim, political and economic ; the dispute arises over the method of attaining it. It is economically impossible "to make the foreigner pay" any but a very small part of our taxes ; and if it were possible, the different trading nations would approach the curious position where each paid a share of the other's taxes. But absurdities of this kind leave the maintenance of a high standard of life untouched as a desirable goal.

*Question IV. Is the Income Tax Objectionable ?*

The Income Tax is now the sheet-anchor of the British system. But this is a recent development. It was denounced as inquisitorial and "un-British" a century ago, and accepted only on sufferance as a war-tax. One of the charges commonly levelled against the government of 1816, is that after Waterloo the tax on corn was retained, while the tax on income was removed. The rise and fixity of the Income Tax is one of the chief events of modern public finance.

The tax is easy to assess and levy in the case of people



with known and fixed incomes. It is difficult to assess in the case of people whose income comes from "profits," and it is believed that many such people evade full payment. This is a question of administration, and the final answer to it depends on the efficiency of the Revenue Department of the Civil Service.

*Question V. Is a "capital levy" desirable?*

This, the most modern of the questions of taxation is a "burning question" in 1924. We had therefore best content ourselves with a statement of the proposal, without any comment.

The National Debt, in the year 1924, stands at 7,700 millions. In 1920 it reached its highest point, 7,880 millions. It fell in 1921, rose in 1922 and 1923, fell in 1924. In four years 180 millions have been taken off the debt. At this rate, the burden of it is likely to be felt for a long time.

The yearly burden is measured in the interest on the debt—about 300 millions a year. The proposal is to remove the whole or a part of this burden by a graduated tax on persons in possession of £5,000 net wealth (capital) or more. Proposals for getting rid of a war-debt by a tax or levy of this kind have been put forward by Ricardo, Professor Pigou, J. M. Keynes, Lord Arnold, and Mr. Pethick Lawrence. The form of levy which the Parliamentary Labour Party has approved and adopted is that of Mr. Lawrence. The levy is reckoned to produce between 3,000 and 4,000 millions. In other words, the proposal is to halve the National Debt by this tax.

The method is similar to that used in the Estate Duties. The proposed charges range from 2 per cent. to 56 per cent. Of the twenty-three different rates proposed, the following are the highest, lowest, and four intermediates.

Estate.		Proposed Tax.
Over £5,000	2 per cent.	(£100)
„ £30,000	20 „	(£6,000)
„ £100,000	34 „	(£3,400)
„ £500,000	45 „	(£225,000)
„ £1,000,000	51 „	(£510,000)
„ £3,000,000	56 „	(£1,680,000)

The levy is to be made upon persons, as in the case of Death Duties. Companies, as such, are not included in the scheme. For the arguments pro and con the inquirer must be referred to the growing literature of the subject. (Appendix.)

## CONCLUSION

Just as the attempts of economists to separate out the elements of "pure rent" from the rents of actual payment are thwarted by the many complexities of human dealings, so are attempts to write of pure economics thwarted by the overlapping of interesting human questions, ethical, political, practical, social, national; by the prejudices natural to vested interests, to the ideas of one's age and country, to social custom, to the eager temperament of the reformer, or the cautious mental inertia of his more conservative opponent. Since knowledge is for man, it is the "human economics," rather than the abstract study, that is the more attractive, and finally, the more important and valuable. But it seems a reasonable assumption that the best foundation for humanistic economics is a general knowledge, as exact as may be, of the agreed results of former inquiries, just as a basis of sifted fact makes the surest basis for opinion and dogma.

The reader who has gone so far, and is of a mind to go farther, will find some guidance to further reading in the Appendix. Should his interest be that of the citizen

rather than that of the student, he may set for himself for his next adventuring some such course as this :

Cannan's *Wealth*.

Clay's *Economics for the General Reader*.

Ruskin's *Unto this Last*, *The Political Economy of Art*, and *Essays on Political Economy* (contained in a single volume of Everyman's Library).

By that time, no doubt, his opinions will be sufficiently fortified, his prejudices sufficiently strengthened—though probably re-cast and re-arranged—to enable him to give rather than to seek advice upon the right manner of studying economics. One prejudice, however, he should at least try to avoid : the prejudice that he is unprejudiced.



# APPENDIX

## PART I (CHAPTERS I.—IV.)

### NOTES ON FURTHER READING

#### (A) Smaller Works on Economics.

Professor Marshall's *Economics of Industry*, Professor Cannan's *Wealth*, Professor Clay's *Economics for the General Reader*, Professor Gide's *Principles of Political Economy*, Sir Henry Penson's *Economics of Everyday Life*, Professor Carver's *Elementary Economics*, are all of them written mainly or partly as introductory books, and are all of them readable, though not equally so. Each has its own distinctive features.

(1) *Elements of Economics of Industry*, by Professor Alfred Marshall. (Macmillan, pp. 432, Third Edition, 4s. 6d.)

This is a well-known textbook, and has passed through several editions and enlargements. It does not deal with money or finance; on the other hand, it has a chapter on Trade Unions.

(2) *Wealth*, by Professor Edwin Cannan. (P. S. King, pp. 304, 6s.)

The most original book on economics that has appeared for many years. The absence of headed paragraphs and subdivisions makes those students who can only learn through spoon-feeding by tabulated doses feel lost and unhappy. Ability to appreciate Cannan's *Wealth* is a very good intelligence test.

(3) *Economics: An Introduction for the General*

*Reader*, by Professor Henry Clay. (Macmillan, pp. 476, 4s. 6d.)

Written during the War, chiefly with a view to the needs of Tutorial Classes of the Workers' Educational Association. It is a general treatise, with chapters on Money, Banking, Prices and Foreign Exchange, Unemployment, Competition, the State and Economics, Business and Morality.

(4) *Principles of Political Economy*, by Professor Charles Gide. (Harrap, pp. 544, 10s. 6d.) Trans. from the 23rd French Edition.

The smaller of two works of a French professor, both published (in translations) by Harrap. Very readable: often, indeed, bright and lively.

(5) *The Economics of Everyday Life*, by Sir Henry Penon. (Cambridge University Press, Part I, pp. 176, 4s. Part II, pp. 112, 4s.)

This work is in "note-book" form, carefully divided and tabulated, with a free use of diagrams, diagrammatic statements, numbered points. These features, and the use of different printing-types, give a very clear, definite, "school-book" effect.

Two small volumes in the Home University Library, taken together, might be added to the list as No. (6): *Political Economy*, by Professor Chapman, and *The Science of Wealth*, by J. H. Hobson. The former is written according to rather old and orthodox ideas, the latter according to more modern and unorthodox ideas. Read together, they offer opportunities for the student to grasp what he often fails to grasp; that a great deal in economics is a matter of opinion. Mr. Hobson's book contains a good account of his ideas about Unproductive Surplus.

## (B) Larger Works.

I. Professor Marshall's *Principles of Economics*, and his *Industry and Trade* make together the fullest

modern account of general economics available: with the serious omission of the question of currency, banking and the economics of the state. (Macmillan, pp. 870, 18s. each.) These are contained in a separate volume: Marshall's *Money, Credit and Commerce*. (Macmillan, 10s.)

II. Taussig's *Principles of Economics*, 2 volumes. (Macmillan, 14s. each volume.) A standard American work.

III. Nicholson's *Principles of Political Economy*, 3 volumes. (Black, £3.) A good alternative to Professor Marshall's three volumes. The same publishers issue also *Elements of Political Economy*, by the same author, at 15s.

For general reference purposes, the student should use *The Dictionary of Political Economy*, where access to it is available. Much of the original work is now out of date. An appendix was added in 1908. A new edition is in the press (Macmillan, 36s. per volume), and the second of the three new volumes has been published: articles F to M. The new edition, however, is a reprint.

Upon special questions, a great deal of information is to be found in the last edition of the *Encyclopædia Britannica*. Older editions should not be used except by advanced students who are inquiring into the history of economic thought. A knowledge of modern theory supplies a standard by which older theories may be judged (see below: *D. Older Works*).

### (C) Special.

On the money questions in general, the most readable work is Hartley Withers' *The Meaning of Money* (Murray, pp. 306, 6s.). The same writer has issued a dozen books on financial subjects, none of them large or heavy (in any sense), and all of them written in a brisk, bright style for the general reader.

W. T. Layton's *Introduction to the Study of Prices*

(Macmillan, 7s. 6d.) gives an account of price movements, index numbers, monetary questions, with many charts and tables of statistics.

*Cash and Credit* and *The Theory of Money* by D. A. Barker (Cambridge Manuals of Science and Literature, pp. 143 and 141, 2s. 6d.) are two useful small books. Another handy little volume is Emile Burns' *Modern Finance* (Milford, 2s. 6d.).

Sykes' *Banking and Currency*, fifth edition, 1923, is a revision of a work long in favour. It deals with war and post-war conditions, and is the most useful single book on the subject now available. (Butterworth & Co., pp. 304, 5s.)

The standard works on Trade Unionism are those of Sidney and Beatrice Webb: *The History of Trade Unionism*, 1666-1920 (1920 Edition. The first edition was issued in 1894). Longmans, 21s.; and *Industrial Democracy*, 12s. The most recent work is Mr. G. D. H. Cole's *Organised Labour: An Introduction to Trade Unionism*, Labour Publishing Co., 6s. (1924). Mr. C. M. Lloyd's *Trade Unionism* (Black, 1915, 3s. 6d.) is a good compact account.

Those who are interested in the mathematical treatment of economics will find a good deal of material in Marshall's *Principles*, in footnotes throughout the book, and in an appendix to the volume. H. Cunyngname's *Geometrical Political Economy* (Clarendon Press, pp. 128, 2s. 6d.) is a clear little book written for those who have not "any knowledge of Mathematics except such Geometry as has been acquired at school, and very little of that."

For the history of economic theory the most convenient and accessible works are Haney's *History of Economic Thought* (Macmillan, 16s.), and the translation of Gide and Rist's *History of Economic Doctrines* (Harrap, pp. 786, 15s.).

Cannan's *Theories of Production and Distribution in English Political Economy from 1776 to 1848* (P. S. King,



12s. 6d.) is full of "wit and wisdom," as Professor Edgeworth said of it, but its range is limited, and it is a book rather for advanced students than for beginners.

Sauerbeck's *Course of Average Prices of General Commodities*, 1820-1907 (P. S. King, 1s.) is rather old, but it is a very useful chart. A much more recent chart is that given at the end of Layton's *Study of Prices*, mentioned above.

*A Guide to Current Official Statistics* was issued in 1923 and 1924 (1s. net, through booksellers or from H.M. Stationery Office, Kingsway, W.C.2); and there is much useful information in Professor Bowley's *Official Statistics* (Oxford Press, pp. 63, 2s. 6d.).

There are two Abstracts of Statistics that are often referred to: (1) *The Annual Abstract of Statistics* of the United Kingdom, of which 68 issues were made, the last (1908-1922, 10s.) being officially *Command Paper* 2207. (2) *The Annual Abstract of Labour Statistics*, of which there were 17 issues. The last is *Command Paper* 7733, 1915, 1s. 6d. It gives figures for Employment, Wages, Prices, Strikes, Trade Unions, Population, Housing, and so forth, during the years 1899-1913, and thus contains a full statistical picture of pre-war conditions.

The *Labour Gazette*, issued monthly (formerly at 1d. now at 6d.), gives the figures month by month, from which the Abstract mentioned above is made up. Each year's figures are summarised in the January number of the year following.

The *Monthly Bulletin of Statistics*, first issued by H.M. Stationery Office at the end of 1919, and now published by Constable and Co., gives figures for production, prices, finance, trade, unemployment.

#### (D) Older Works.

There are many famous (and other) ancient volumes on economics resting on the shelves of our libraries.

The young student had best leave them there. When he has advanced far enough to recognise abandoned theories and early errors, on meeting them, he may without danger, and possibly with some profit, read the classics of his grandfather. But his first business is to get a clear general idea of the position of modern economics. This he may use as a test and a standard, remembering also that it is not a fixed and absolute standard, but, like our monetary system, an attempt towards one. In studying science (or half-science), the best and safest plan is to master the modern theory first. The story of older theories, which is often an interesting story, may be read later. When that time comes, Adam Smith, J. S. Mill, and Ricardo may safely be taken from their dusty shelves. The smaller writers of a past age, however, are quite useless, except as targets for easy satire ; and that is an ignoble exercise.

### Definitions of Economics.

There is no reason for not accepting the time-honoured identification of the subject-matter of economics with "wealth." The aim of Political Economy is the explanation of the general causes on which the wealth or material welfare of human beings depends.—*Cannan*.

Political Economy or Economics is the study of mankind in the ordinary business of life ; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being.—*Marshall*.

The study of the making, exchanging, sharing and using of wealth.—*Chapman*.

The science which teaches us what rules mankind should observe in order to advance in material prosperity.—*Pierson*.

Economics is the study of business in its social aspect ; the word "business" being used in its broadest sense, to cover all lawful ways of making a living.—*Clay*.

Economics, or the problems of getting and utilising private, government, and social income.—*Carver*.

It is frequently asserted that Economics is the Science of Wealth, but this seems to be looking at the subject from the wrong point of view. What we are studying is not wealth but Man. . . . Economics deals primarily with man as wanting, working, getting, spending, and secondarily with the wealth.—*Penson*.

### Definitions of Wealth.

- I.—1. Weal, prosperity, welfare, eternal happiness.
2. A collective term for riches ; material possessions in all their variety.

- II. Polit : Econ : A term embracing all and only such objects as have utility and can be appropriated in exclusive possession, and therefore exchanged.  
—*Encyclopedic Dictionary*.

“The term wealth, if used in the strictest accordance with history and etymology, is an accurate designation (for ‘the subject of political economy’). The Saxon *weal* indicated a condition of relative wellbeing, the state of having one’s wants well supplied as compared with a prevailing standard. . . . Health and contentment may make the shepherd happier than the owner of flocks ; yet the owner only is ‘well off’ . . .

“Personal attainments, as subjective and immaterial, are excluded from the meaning of the term (wealth). They are not a possession ; that implies externality to the possessor. They are what he is, not what he has. . . . Labour creates wealth, and acquired abilities are potential labour. . . . If wealth-creating abilities are to be confounded with the product which results from exercising them, every power acquired by effort, involving in practice the whole man, will have to be classed as a commodity. . . . Man produces wealth and consumes it ; but man himself is always distinct from it. . . . The objective element inseparable from service is

wealth ; the totality of it is the sum total of social products. This material element is the result of effort, and the cause of gratification, and furnishes, therefore, the necessary connection between the elements of service. It has invariably the four essential attributes of wealth ; it is objective to the producer and the utiliser ; it is material ; useful ; and appropriable. It is distinguishable in every action that can be termed a service ; but it is not always tangible, visible and durable. . . . It is the more ethereal products of human effort that are the characteristic wealth of a highly organised society.”  
—*Professor J. B. Clark.*

“ Evidently a community is the better off, the more free goods it has, and the less the range of things that come within the category of ‘ wealth.’ . . . The wealth of a community is not the sum total of things on which its welfare depends—these include its free goods as well as its economic goods. The more things are free, the easier are the conditions of living. The more things are economic [scarcity is the earmark of an economic good—scarcity, that is, relatively to the demand] the wider is the range of commodities concerning which the economic problems arise, and the wider is the scope of the science of ‘ wealth.’ . . . A free gift of nature may be wealth, if it is limited in quantity. . . . Agricultural land, power and deep-water sites, forests, mineral lands—are all often economic goods by virtue of mere natural limitation of quantity.”—*Professor Taussig.*

Original sense was welfare, happiness, as still in “ commonwealth.”—*Weekley.*

“ Anything that satisfies, directly or indirectly, a human want, and is not unlimited in quantity ” is the definition of wealth that economics, following ordinary usage, has formulated.—*Clay.*

Wealth, for the purpose of economic study, means only exchange values : that is, values against which other values will be given in exchange.—*H. Belloc.*

# **Subject-Matter of Economics.**

A descending order of definitions of the subject-matter of Economics.

- I. Human welfare in all aspects, from religious feelings to a craving for war-paint.

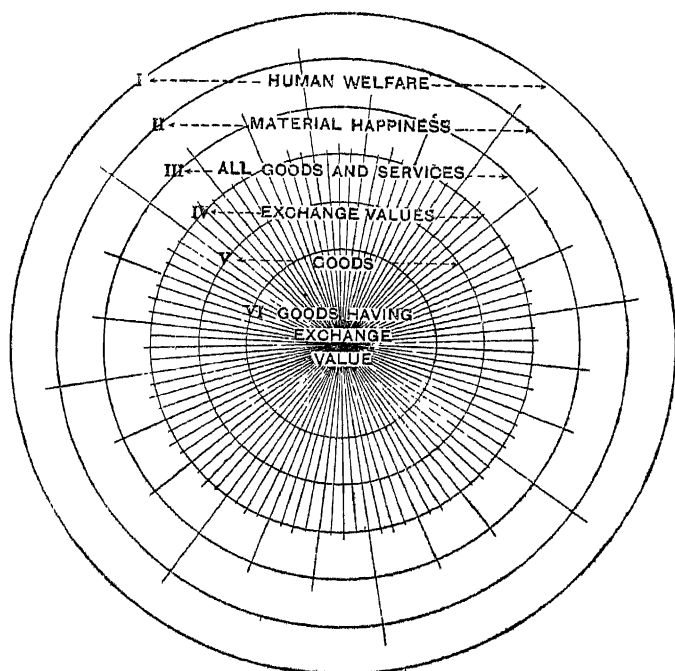


FIG. 5.—The Subject-matter of Economics: Wider and Narrower Range.

Most economists take for their field of inquiry the shaded area: VI., V., IV. and a little of III.

- II. Welfare, individual and social, in relation to happiness.
- III. Goods and services of all kinds, natural or man-made.

IV. Such goods and services as are or may be bought and sold ; or in other words, that have not only a value in use, but also a value in exchange.

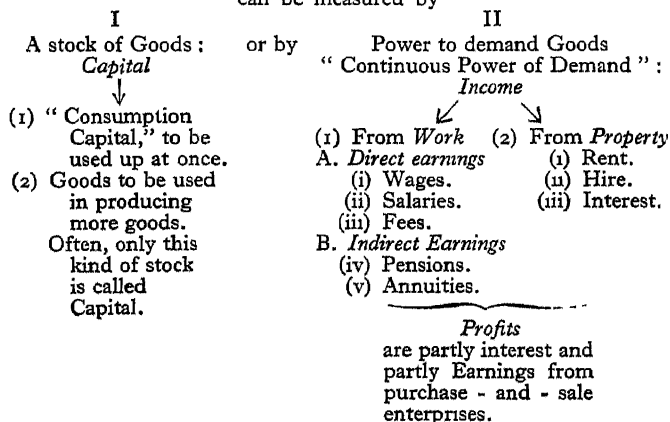
V. Goods (not services) of all kinds.

VI. Goods (not services) that have a value in exchange.

Of these, No. III. and No. IV. form the field of inquiry of most economists. No. IV. covers the area chiefly explored, and Nos. II. and III. represent surrounding areas which are partly traversed by many economists.

### WEALTH

can be measured by



### Definitions of Capital.

" Then let us look at the notion of capital as a store of things, the result of human efforts and sacrifices, devoted mainly to securing benefits in the future rather than the present. . . . The savage shows some prospectiveness when he puts together branches of trees to protect him during the night ; he shows more when he makes a tent of poles and skins. . . . the civilised man shows

increasing prospectiveness when he substitutes solid houses of brick and stone. . . . A line could be drawn anywhere to mark off those things the production of which shows a great desire for the future rather than the present : but it would be artificial and unstable. Those who have sought one, have found themselves on an inclined plane ; and have not reached a stable resting-place till they have included all accumulated wealth as capital.”—*Professor Marshall*.

“ Any wealth can be used as capital, provided it fulfils this condition—that it is used, not by the final consumer but by some producer, to aid him in his productive work. Capital has three chief functions in an economic organisation like the present one—(1) in the form of tools, instruments, ‘ plant,’ it makes men’s labour on Nature infinitely more productive than it otherwise could be ; (2) in the form of stocks of goods, articles ready for consumption in warehouses and shops . . . it enables us to adopt the roundabout and very productive methods of production to which specialisation leads ; if society was living from hand to mouth, and had no savings, no store of wealth to aid it in further production, every member of society would have to occupy his whole time in digging and hunting for bare food ; and (3) in the same form it enables us to take risks, to produce in anticipation of demand instead of waiting for orders.”—*Professor H. Clay*.

### **Economics and Science.**

Economics is a branch of Sociology : it is one of the social sciences, of which others are :—Psychology, Law, Ethics, Politics, Theology. Several classifications of the sciences have been made (see Chapter IV. of J. A. Thompson’s *Introduction to Science* in The Home Universal Library). No one classification is yet generally accepted.

**Dates of Early Books.**

1775-1776. *An Inquiry into the Nature and Causes of the Wealth of Nations*, by Adam Smith, LL.D.

Adam Smith's work was the first important book on Economics in English, and the first general work on the subject to become widely known. It marks the beginning of the modern study of Economics. The book gives an account of Free Trade, of which Adam Smith was a supporter. It describes the advantages of the Division of Labour, and it makes clear in the opening sentence that Wealth is not so much an accumulation, but a *flow* of goods produced year by year—

"The annual labour of every nation is the fund which originally supplies it with all the necessities and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labour or in what is purchased with that produce from other nations." (Introduction, *Wealth of Nations*.)

1817. Ricardo's *Principles of Political Economy*.

1848. *Principles of Political Economy, with Some of their Applications to Social Philosophy*, by John Stuart Mill.

A book that was very widely read for a generation.

1862. *Unto this Last*, by John Ruskin. The title is taken from the Parable of the Labourers, St. Matthew xxiii. 14 : "I will give unto this last, even as unto thee." Ruskin was a critic of the economists of his time.

**Forms of the Division of Labour.**

*Simple Co-operation*, as where several people lift a weight too heavy for any one of them.

*Complex Co-operation*, as when a task is divided into different parts ; e.g. the production of a newspaper by paper-makers, printers, machine-makers, writers, and so forth.

*By Age and Sex* : men's, women's, and children's work.



*By Regions*, as the production of rubber or cotton in some districts and its manufacture in others ; as also in the cases of fishing, lumbering, mining, farming, and pastoral regions.

*By Nations*. International division of labour (apart from regional division.) Part of the Free Trade argument is built upon this idea. Some nations would produce sheep, wool, rubber, cattle, hides, ores, raw rubber. Others would manufacture the raw products. Let Russia and Canada grow our wheat, Australia our wool ; and let England devote herself to manufacturing. Let her become the workshop of the world. But Australians did not like the idea of being confined to agriculture and sheep farming. Canadians did not want to be exclusively wheat farmers and lumberers. Englishmen did not like the notion of an England consisting of Birmingham, Manchester, and their suburbs. The arguments for increased production are chiefly with the Free Traders. The deepest objection of the Protectionists were concerned with a varied national life ; though as a rule these arguments were not very clearly expressed by the Protectionists themselves.

*By Social Customs*, as where caste fixes certain occupations (India : and the trade of butchering among modern Jews) ; or where occupations are confined to certain groups by a limit made through rank or wealth (the British Foreign Office, for most of its history ; or positions in many royal households).

### **Advantages of the Division of Labour.**

*Increase of skill and economy in its use.* The skilled worker by working only at his special craft, becomes more skilled, and his dexterity is fully used, because he is not set to spend time on tasks that less skilled men can do as well.

*Cheaper Goods.* By the division of labour, an increased output is possible. An increased supply (unless the demand increases still more) results in a fall of price.

*Shorter Hours of Labour.* The division of labour need not result in shorter hours of labour, but may be used so as to have that effect, through economising labour and capital, and increasing the total output.

*Stimulus to Invention.* Most mechanical improvements are made by specialists, though some important inventions have come from amateurs—Cartwright's loom, for example.

*Economy in Tools and Machinery.* The more specialised the tool or the machine, the more completely is it used for its own purpose by special craftsmen. Thus each part of a complex job may be done in one factory for a dozen general factories. Without the special machine, each factory would be doing this part of the work for itself, and doing it more slowly and probably less efficiently.

*Economy in Labour.* The heavier tasks can be confined to the stronger workers. Machine planing is said to have reduced the cases of heart disease among carpenters. Formerly the rough boards had to be "jack-planed" by hand, which made carpenters "old men by the time they were forty" (*Wealth of Nations*, Bk. I., Chap. VII.).

### **Disadvantages of the Division of Labour.**

*Monotony of work.*

*Loss of interest and pride in the work.*

*Loss of education from the work*

*Loss of a close sense of social fellowship.*

Also, the evils of factory life, and of the crowded houses and streets round the factories, may accompany methods of the division of labour. They

did so in England in the nineteenth century, and the effects have not yet disappeared.

### Wallas on Change of Work.

"A Government Department in which routine officials are from time to time shifted to new duties, gains more in twenty years from their increased zest and transferability than it loses from their decreased skill in the few weeks following each change."—*Graham Wallas (Our Social Heritage)*.

### Wants.

Wealth consists of Goods or Commodities (material goods) and of Services (immaterial goods).

Wealth results from the Satisfaction of Wants.

New possibilities of satisfaction (*e.g.* motoring or flying) give rise to new wants.

Modern economic activity aims at the satisfaction of human wants, through efforts of labour, intelligence, skill and organisation applied to natural objects by means of artificial contrivances (capital).

$$\text{Wants} \left\{ \begin{array}{l} \text{Labour} \\ \text{Intelligence} \\ \text{Skill} \\ \text{Organisation} \end{array} \right\} \left\{ \begin{array}{l} \text{Nature} \\ \text{and} \\ \text{Capital} \end{array} \right\} \left\{ \begin{array}{l} \text{Satis-} \\ \text{factions.} \end{array} \right.$$

### The Law of Diminishing Utility.

If equal additions are made to a stock of economic wealth, the added utility is less for each addition. The later additions can only be used for satisfying secondary wants. The primary wants are satisfied by the earlier additions. Whether the primary or the secondary wants are unhealthy or evil in their nature is a question of health or morals rather than of economics. Its importance, however, may be very great indeed.

### The Scale of Wants.

- I. Bare Necessaries.
- II. Conventional Necessaries.
- III. Comforts.
- IV. Recreations.
- V. Culture.

What is sometimes called "The Minimum Standard of Life," or what is aimed at under the expression "A Minimum Wage," always must include I. ; almost always II. also ; very often, in part, III., and IV. in addition. For a full life, all five are necessary. But everything that might be included under these five heads is not necessarily desirable for all, or for any.

Economic Wants may be :

- (a) *Personal* : as in the case of each person's food ;
- (b) *Family* : as in the case of a scullery or a garden ;
- (c) *Local* : as in the case of a swimming bath or a street lamp ;
- (d) *National* : as in the case of highroads ;
- (e) *International* : as in the case of trade highways.

In all cases they are individual or social, or both. The chain of Wants-and-Satisfaction is usually both individual and social. Only in the "Robinson Crusoe" life can it be entirely individual.

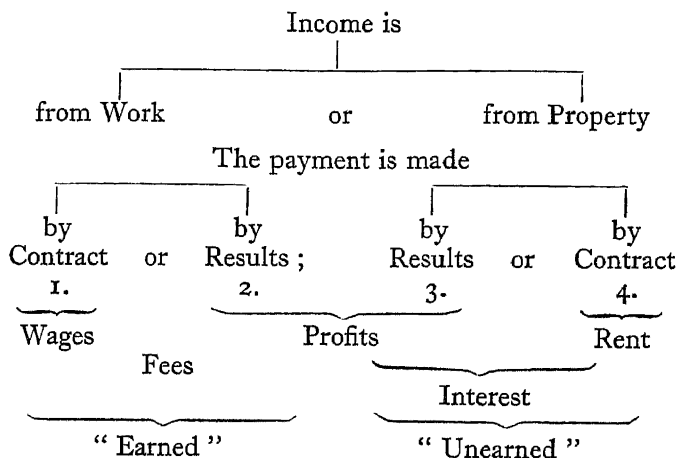
### Income.

*Income* is the power of continuous demand.

The demand may be (1) for goods, (2) for services.

The goods and services must be "in the market" for sale.

The goods demanded may not be in existence at the time of the demand. Income can earmark future production.



Wages and fees are " Earned."

Profits are partly " Earned."

Interest and Rent are " Unearned."

### Index Numbers (with Percentages and Averages).

Index numbers are used for making comparisons, in cases where simple comparisons are not possible. Two of these methods of simple comparison are now fairly well known : percentages and averages.

The percentage method is used, for example, in comparing the state of employment (and therefore unemployment) in different years or months. Thus, the figure 3·3 for the year 1914 represents 3·3 persons unemployed out of every hundred. But the " hundred " only stands for the number of members of certain trade unions, that is, those paying unemployment benefit. Since 1920 percentages of people insured under the Act of 1916 have been reckoned. It is plain, therefore, that the percentage figures do not give us very accurate comparisons. Statisticians, who compile and reckon

tables of figures, are generally very cautious over building up arguments on any figures. Still, if they are taken very broadly, and are not supposed to be very exact, such figures are useful in giving rough comparisons between different years.

### Percentage Method : Figures for Unemployment.

Year.	Per cent. unemployed.	Year.	Per cent. unemployed.
1872 . . .	0'95	1916 . . .	0'4
1893 . . .	7'7	1917 . . .	0'6
1899 . . .	2'0	1918 . . .	0'8
1904 . . .	6'0	1919 . . .	3'2
1909 . . .	7'7	1920 . . .	3'1
1911 . . .	3'0	1921 . . .	16'5
1913 . . .	2'1	1922 . . .	15'1
1914 . . .	2'3	1923 . . .	11'4
1915 . . .	1'1	1924 (Jan. to July)	10'0

### Unemployment: Seasonal Variations.

(Figures for Great Britain : Ministry of Labour  
Gazette, October, 1924.)

	1921.	1922.	1923.	1924.
January . . .	10'6	17'0	12'9	11'8†
February . . .	12'4	16'4	12'0	10'6
March . . .	14'5	15'4	11'3	9'8
April . . .	19'2*	15'2	11'2	9'6
May . . .	22'3*	14'0	11'0	9'3
June . . .	21'3*	13'1	11'1	9'3
July . . .	16'9	12'5	11'4	9'7
August . . .	14'7	12'3	11'7	10'5
September . . .	13'5	12'2	11'6	10'6
October . . .	13'8	12'1	11'6	
November . . .	16'4	12'5	11'4	
December . . .	17'2	12'3	10'5	

\* Coal dispute.

† Railway dispute.

*Averages* are equally useful and can be equally misleading, thus :

The average height of Tom, Dick and Harry is the same as the average height of Bill, Jack and Joe : five feet seven inches.

	Ft. ins.		Ft. ins.
Tom . . .	6 5	Bill . . .	5 6
Dick . . .	5 2	Jack . . .	5 7
Harry . . .	5 2	Joe . . .	5 8
	<hr/>		<hr/>
Total . . .	16 9	Total . . .	16 9
	<hr/>		<hr/>
Av. . . . .	5 7	Av. . . . .	5 7

Yet the first three men, set in a row with the second three, would show themselves at a glance not to be like but very unlike the second three, in the matter of height.

*Index numbers* are used to compare "the value of money" at different times, or, to show changes in the general level of prices. They were first used by an Italian (G. R. Carli) in 1764. There are now many series of Index Numbers in use, the best known, in England, being those of (1) The Board of Trade, reckoned from the year 1871, and first published in 1903, (2) "The Economist" Newspaper, (3) Sauerbeck. Most countries now have their lists of Index Numbers, there being very often several sets in use in a single country. We shall here take the Board of Trade figures to illustrate the general method.

The wholesale prices of 45 different articles, reckoned on the average price of each during the year 1900 are totalled and used as a standard. The articles are selected, so that the total will make a fair representation of all the different articles used in the country. To make the representation more exact, what are called "weights" are used: that is the figures for each article are

multiplied by larger or smaller numbers, according as the articles are more or less used. Thus, the figure for foreign wheat is multiplied by 33, rice by 1, eggs by 5, bricks by 3, coal by 34. The final total is represented by 100; so the prices for the year 1900 being set down as 100, we get a method of comparing year with year. The following examples show some of the chief rises and falls :

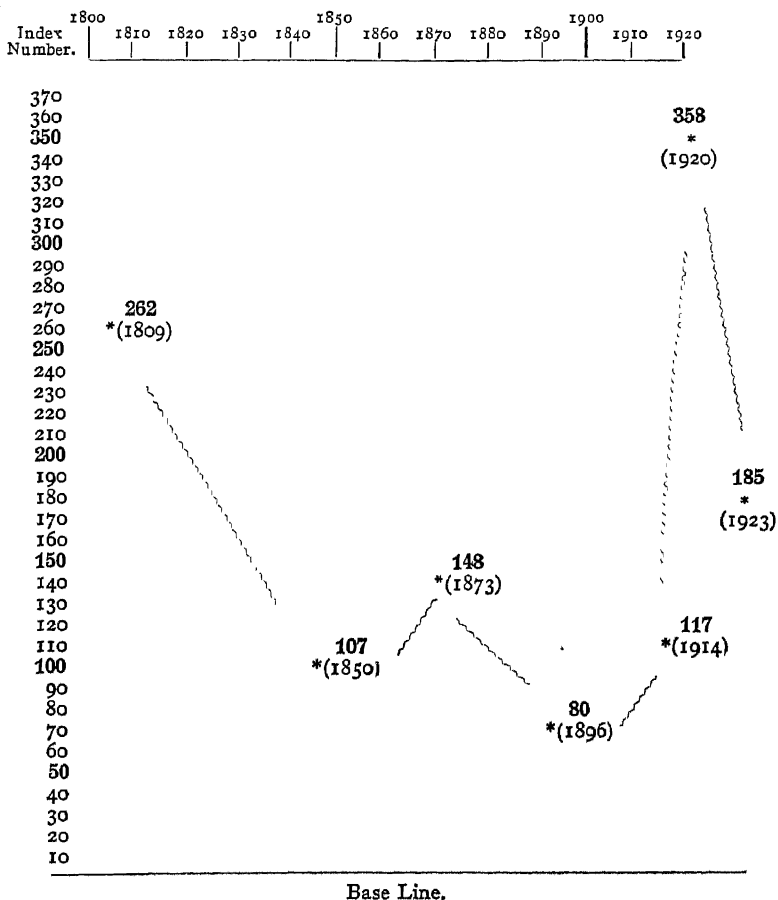
### Wholesale Prices.

Year.	Board of Trade Index numbers : Wholesale prices (year 1900 as 100).		
1809	.	.	262
1850	.	.	107
1873	.	.	148
1896	.	.	80 lowest recorded.
1900	.	.	100
1903	.	.	92
1907	.	.	107
1913	.	.	116
1914	.	.	117
1915	.	.	144
1916	.	.	186
1917	.	.	243
1918	.	.	267
1919	.	.	296
1920	.	.	358 highest recorded.
1921	.	.	230
1922	.	.	185
1923	.	.	185



# WHOLESALE PRICES

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## WHOLESALE PRICES.

### HIGHEST AND LOWEST POINTS.

The rise and fall between the points marked was neither steady nor uniform. Thus, there were two short falls during the last rise,—1900-03 and 1907-08.

FIG. 6.

**Retail Prices.**

Index numbers of retail prices in London (Board of Trade figures).

Year.	100 = year 1900.			100 = July, 1914.		
1850	.	.	148	.	.	—
1896	.	.	*81	(lowest for a century)		
1900	.	.	100	.	.	—
1901	.	.	93	.	.	—
1902	.	.	92	.	.	—
1903	.	.	92	.	.	—
1904	.	.	93	.	.	—
1905	.	.	96	.	.	—
1906	.	.	103	.	.	—
1907	.	.	107	.	.	—
1908	.	.	97	.	.	—
1909	.	.	99	.	.	—
1910	.	.	104	.	.	—
1911	.	.	107	.	.	—
1912	.	.	114	.	.	—
1913	.	.	115	.	.	—
1914	.	.	117	.	.	100
1915	.	.	—	.	.	132
1916	.	.	—	.	.	161
1917	.	.	—	.	.	204
1918	.	.	—	.	.	210
1919	.	.	—	.	.	217
1920 (highest for a century)			—	.	.	*262
1921	.	.	—	.	.	226
1922	.	.	—	.	.	226
1923	.	.	—	.	.	175

**Average Price of Wheat per Quarter.**

Year.						Shillings.
1790	.	.	.	.	.	55
1800	.	.	.	.	.	114
1810	.	.	.	.	.	106
1820	.	.	.	.	.	68
1830	.	.	.	.	.	45
1840	.	.	.	.	.	66
1850	.	.	.	.	.	40
1860	.	.	.	.	.	53
1870	.	.	.	.	.	47
1880	.	.	.	.	.	44
1890	.	.	.	.	.	32
1900	.	.	.	.	.	27
1910	.	.	.	.	.	32
1920	.	.	.	.	.	81
1921	.	.	.	.	.	71
1922	.	.	.	.	.	48
						Per cwt. of 112 lbs.
						s. d.
1914	.	.	.	.	.	7 2
1918	.	.	.	.	.	16 7
1921	.	.	.	.	.	19 9
1922	.	.	.	.	.	10 4
1923	.	.	.	.	.	9 8

**Index Numbers of Retail Prices of Food, 1914—1918.**

(From the Monthly Bulletin of Statistics, 1919.)

	1914 (July).	1915.	1916.	1917.	1918.
United Kingdom .	100	132	161	204	210
Paris ..	100	122	132	183	206
Other French Towns	100	123	142	184	244
United States .	100	98	109	143	165
Italy .	100	119	133	174	249
Canada .	100	105	114	157	175
Australia .	100	131	130	126	132

The figures 100 are starting points. They do not

mean that prices in all these countries were at the same level in July, 1914.

### Increase in the Cost of Living, 1914-1924.

	Index numbers for Great Britain.		
	July, 1914.	January, 1924.	October, 1924.
All items	. 100 .	. 177 .	. 176
Food only	. 100 .	. 175 .	. 174

### Cost of Living, 1914 and 1923.

(International Labour Review figures.)

	Index Numbers.	
	1914. (July).	1923. (Summer).
United States	. . 100 .	. 163*
United Kingdom	. . 100 .	. 173
Netherlands	. . 100 .	. 173
Sweden	. . 100 .	. 174
Denmark	. . 100 .	. 204
Norway	. . 100 .	. 239
Finland	. . 100 .	. 1163

### Real Wages.

If in two countries, A and B, the wage for a certain class of labour is £4 per week ; and if the general cost of food, clothing, rent, is twice as high in B as in A, then the real wages in B is only about half the real wages in A, while the money in the two countries is the same. The Real Wage is a ratio between Money Wage and Cost of Living.

$$\text{Real Wages} \left\{ \begin{array}{l} \text{varies as} \end{array} \right\} \frac{\text{Money Wage}}{\text{Cost of Living}}$$

\* An average of two calculations. (The figures 100 do not imply that the cost of living was the same for all these countries in 1914.)

The first of the tables following is taken from the Ministry of Labour Gazette, Jan. 1924. The comparison is between towns, not countries, so that agricultural wages are omitted. The Gazette gives figures for fifteen towns, classified according to trades, and averaged. Here only the averages for eight towns are given. The figures are comparative only (Index Numbers), those of London being taken as 100. The two figures of 100 for London do not mean that real wages in London were the same in 1914 and 1923. Each column is a separate comparison with London, in each case London being taken as 100. In these figures the price of food only has been taken into account, not rent or clothing or any other items of expenditure. The results therefore do not give a correct rendering of real wages. It is doubtful if any figures are obtainable giving an exact statement of real wages. The Gazette describes these figures as giving a "very rough indication" of the differences in various capitals.

### Index Numbers of Real Wages.

	1914 (December).	1923 (November).
London . . .	100 .	100
Brussels . . .	61 .	58
Madrid . . .	42 .	—
New York . . .	187 .	—
Ottawa . . .	181 .	188
Paris . . .	— .	87
Vienna . . .	69 .	49
Warsaw . . .	93 .	—

### Money Wages and Real Wages.

Index numbers from Bowley and Wood's statistics.  
Year 1900 taken as 100.

Year.	Money wages.	Real wages.
1850 . . .	56 . . .	55
1860 . . .	64 . . .	56
1870 . . .	72 . . .	65
1880 . . .	80 . . .	74
1890 . . .	90 . . .	90
1900 . . .	100 . . .	100
1910 . . .	99 . . .	90

The most recent calculation of real wages is that given on the next page. It is copied from *The Monthly Circular of the Labour Research Department*, October, 1924. It will be seen that the Bowley and Wood figures give 90 as the index number of real wages in 1910, and the table below gives 88·2. As such figures go (they can never be exact) this is a fairly close agreement.

The column marked (c) is explained in the text thus : " Column (c) combines these two figures (*i.e.*, (a) and (b), so as to show the actual money wages (expressed as percentage of 1900) which the average worker could expect to earn in each of these years. The following is the method of calculation. In 1900 the unemployment percentage was 2·5 : that is to say, for every 100 jobs 102·5 men were competing. Or, in other words, each man could only expect  $100 \div 102\cdot5 = 97\cdot8$  per cent. of full-time wages. In 1901 he could only expect  $100 \div 103\cdot3 = 96\cdot8$  per cent. ; and so on for each year. If we express the actual money wages throughout as percentages of 1900, we find that in 1901 a man could expect to earn 98·2 per cent. of what he earned in 1900 ; in 1902, 93·6 per cent., and so on. When the unemployment percentage is less than 2·5, as during the war, the actual

# MONEY WAGES AND REAL WAGES 173

money wages will appear higher than in nominal wages ; during a slump it will appear much lower. This, of course, as every worker will know, reflects the facts.

EARNINGS AND FOOD PRICES, 1900-1924.

Year.	(a) Nominal wages.	(b) Unem- ployment percent- age.	(c) Actual wages (com- bined) (a) and (b).	(d) Retail prices.	(e) Real wages.
1900 . . . . .	100'0	2'5	100'0	100'0	100'0
1901 . . . . .	99'0	3'3	98'2	100'4	97'8
1902 . . . . .	97'8	4'0	96'3	101'0	95'3
1903 . . . . .	97'3	4'7	95'2	102'8	92'5
1904 . . . . .	96'8	6'0	93'5	102'4	91'3
1905 . . . . .	97'3	5'0	95'0	102'8	92'4
1906 . . . . .	98'7	3'6	97'6	102'0	95'7
1907 . . . . .	102'1	3'7	100'9	105'0	95'1
1908 . . . . .	101'5	7'8	96'5	107'5	89'8
1909 . . . . .	100'3	7'7	95'4	107'6	88'2
1910 . . . . .	100'7	4'7	97'5	109'4	88'2
1911 . . . . .	100'9	3'0	100'4	109'4	91'8
1912 . . . . .	103'4	3'2	102'7	114'5	89'7
1913 . . . . .	106'5	2'1	106'9	114'8	93'1
1914 . . . . .	107'0	3'3	106'1	116'8	90'7
1915 . . . . .	115'0	1'1	116'5	154'1	82'1
1916 . . . . .	125'7	0'4	128'3	188'0	69'9
1917 . . . . .	147'1	0'7	149'7	238'3	62'0
1918 . . . . .	189'9	0'8	193'0	245'3	78'2
1919 . . . . .	227'4	2'4	227'6	244'1	93'2
1920 (mid.) . . .	278'2	2'4	278'4	301'3	92'4
1921 (end) . . .	230'0	15'3	204'4	216'0	94'0
1922 . . . . .	185'1	15'4	164'3	204'4	81'2
1923 (end) . . .	180'9	11'5	166'2	204'4	81'3

“ This column (c), it should be observed, takes no account of either overtime or short-time earnings. To make a proper calculation of actual earnings these should be included ; but in the absence of any figures at all they cannot be. We can only observe that overtime increases earnings in good trade, and short time decreases them in bad. If they were included the drop in wages

between 1920 and 1921 would be even more sudden than it appears."

The assessment of Real Wages (e) is thus explained : " In column (e) we have combined columns (c) and (d) so as to show the course of real wages, *i.e.* wages expressed in terms of food prices, since 1900. As in the previous column, the reader must remember that only the price of food is taken into account. Were it possible to include all items the figure for real wages would be a little higher up to 1918 ; but would then drop more sharply."

### **Real Wages : the Fall after 1896.**

" But during the period of almost twenty years immediately preceding the War, in spite of great technological and commercial progress, prices rose steadily, and in the absence of advances in wages-rates the position of the workers would have been considerably changed for the worse. In spite of those advances which were secured from time to time it seems fairly evident that the majority of wage-earners were no better off at the end of that period than at the beginning, and that they therefore enjoyed little or no benefit from the industrial progress which had been effected. . . .

" The rise in prices during the eighteen years immediately preceding the War was due to expansion of currency. . . . The annual average production of gold showed a rapid and fairly steady increase after 1896, due mainly to the exploitation of the African mines made possible by the discovery of the cyanide process. The new supplies, which in a few years amounted to a considerable percentage of the previously existing supply, found their way to all countries. They helped to swell the currency which was further expanded by the credit currency issued on the new gold, and by the development of the banking system in the newer economic regions (such as the southern states of N. America),



which resulted in an increase in the proportion of credit currency to gold currency. Thus the total volume of currency increased even more rapidly than the supply of gold. But the new gold was the main cause of the increase. . . .

“Retail prices rise and fall more slowly and within narrower limits than wholesale prices, and wages vary less than retail prices. An upward trend of prices reacts unfavourably, and a downward trend favourably upon wage-earners as a whole. And in this respect what is bad (or good) for labour is good (or bad) for owners of capital.”—*J. Harry Jones, M.A., Social Economics, 1920.*

### Gold and Prices.

Professor Ashley, writing under this title in 1912 discussed the cause of the rise of prices after 1896. He examined and rejected three suggested causes of the rise :

(1) Increased production had been suggested as a cause of the fall of prices from 1873 to 1896. By this argument, a decrease in production should appear after 1896 to explain the *rise* in prices. No such change can be traced. Professor Ashley agrees that increases and decreases in production do affect prices ; but they do not explain the long fall before 1896, nor the rise after that year, since production did not decline after 1896.

(2). That the rise of prices was due to prosperity. By this argument, the period before 1896 should have been one of bad trade. But there were bad-trade and good-trade years in the period before and in the period after 1896.

(3) An argument sometimes used “in business circles,” is that high prices are caused by high wages. Here, again, the figures will not fit the theory. Wages rose in England, France, Germany, and the United

States, between 1873 and 1896 (12 per cent. in England, for example), but meanwhile prices were falling. "An increase of wages is very rarely obtained until there has been an increase of the price of the product."

(4) The "vast increase in the output of gold." This Professor Ashley takes to be the main cause of the rise.

			Increased output.
After 1890 . . .	.	.	2 to 4 mills. a year.
1897 . . .	.	.	7 mills.
1898 . . .	.	.	10 mills.

In 1910-12 the total output per head had become "three or four times as much as the annual output during the forty years 1850-1890."

Professor Ashley finds confirmation in some "independent statistics."

"Mr. Hooker has recently brought up to date a calculation made by Professor Cassel in Stockholm in 1904. Assuming that the increase in the world's stock of gold between 1850 and 1900—two dates when prices were at much the same level—was sufficient to do the increased gold work required by the currency system (whatever we may suppose that work to have been at different times during that half-century), we arrive at an estimate of the world's normal requirements of gold. Applying this measure, we find that by 1910 the supply had risen some 9 per cent. above normal requirements. But, as it happens, 9 per cent. is also exactly the amount of rise in prices between 1900 and 1910, as measured by the Board of Trade's index number. . . . We know, also, what has happened to a part of the net imports. According to a recent estimate of the Deputy Master of the Mint, the amount of gold coin in the United Kingdom increased between 1895 and 1910 from some 92½ million pounds to some 113 million pounds. This is an increase of 22 per cent.—a figure which is curiously near the 24 per cent. rise of wholesale prices."

**Wages : Five Points.**

1. The amount of the wage is fixed or understood beforehand.
2. The work to be done is fixed or understood beforehand.
3. The work is to be done under direction or under orders. The time and place of the work are also, as a rule, fixed or understood.
4. The wage is paid for a certain amount of work, either measured in time (payment by the week, day, or hour), or in quantity (piece-work).
5. Payment is made after the work is done.

**Theories of Interest.**

Interest is the price paid for the use of money. Economists have given different explanations, or theories, to explain what interest is, why it is paid, or why it should or should not be paid. Five of these theories are given below, the first being the simplest and the one most commonly held.

1. *Use Theory.* Interest is paid for the loan of money, because the money borrowed can be put to use. (*Menger, Cannan.*)
2. *Abstinence Theory.* Interest is the reward of abstinence. The lender of money abstains from spending it, and is rewarded by receiving interest. (*W. N. Senior.*)

Much fun has been made of this theory.

3. *Productivity Theory.* Interest is the price of the productive services of capital. (*Malthus, J. B. Say.*)
4. *Labour Theory.* Interest is the wages of the labour which produced the capital (money) lent. (*J. S. Mill.*)

5. *Exploitation Theory.* Interest results from exploiting the labours of others, and taking part of the produce of labour. (*Marx.*)

It would be a very useful exercise if one were to work out No. 4 and No. 5, side by side, and set the results against No. 1. It would then be plain that No. 1 explains why interest is paid, No. 4 why it ought to be paid, and No. 5 why it should not be paid.

### Usury.

Practice of lending money at exorbitant interest, especially at higher interest than is allowed by law.—*Oxford Dictionary.*

Trafficking in other people's misfortunes.—*St. Chrysostom.*

To use the fruits of past labour in order to live on the labour of somebody else is of the very essence of usury.—*Shields Rose.*

It could be wished that all usury and the name itself were banished from the earth. . . . Usury is not wholly forbidden among us unless it be repugnant both to justice and to charity.—*Calvin.*

It would be for the general happiness, and therefore right, that no private person should be allowed to own any of the means of production, nor any direct means of enjoyment, save such as he needs for his own.—*Prof. Marshall.*

Where the lending class have so great an advantage over the borrowing class. . . . of distressed persons as practically to place an individual borrower completely at the mercy of the usurer . . . laws limiting the rate of interest, in protection of the would-be borrower, may not be so unwise and unstatesmanlike as they have generally been considered.—*F. A. Walker.*

Usury is the taking of any interest whatever upon an unproductive loan . . . essentially a claim to interest,

or extra wealth, which is not there to be claimed. Usury is both wrong morally and bad for society. . . . There is nothing morally wrong about the transaction . . . (of) earning interest on a productive loan.—*H. Belloc*.

### Usury : Dates.

B.C. c. 1400 or later. Usury forbidden as between Hebrews (Exod. xxii. 25, and Deut. xxiii. 13).

B.C. c. 445. The restriction enforced by Nehemiah.

A.D. 787. Usury forbidden in England.

1197, 1341, and 1436. All lending at interest forbidden.

1545. Ten per cent. interest allowed.

1623. Eight per cent. interest allowed.

1651, 1660. Six per cent. interest allowed.

1713. Five per cent. interest allowed.

1854. All restrictions removed.

1900. Moneylenders Act, giving protection against excessive charges.

The word "interest," in the place of usury, appears first (in this list) in the Act of 1623.

The relation of usury to interest : five views.

1. Taking any interest whatever is usury, and is wrong.
2. Taking interest beyond what the law allows is usury.
3. Taking excessive interest is usury.
4. Taking interest from the needy and distressed is usury.
5. Taking interest for an unproductive loan is usury.

In practice, the world has found it very difficult to deal with "usury" and "interest" separately.

### Joint Stock Companies with Limited Liability.

Many Acts were passed in the first half of the nineteenth century, to enable several people to use their

money in joint enterprises, without any need of a royal charter. The chief of these Acts were passed in 1840, and in 1862.

By the Act of 1862, a shareholder was not liable for losses of the company beyond the amount of his shares : "limited liability." The Act was amended in 1867, and 1908.

Public Companies are Joint Stock Companies whose shares are open to be purchased by the public. The shareholders are liable for the debts of the Company to the whole extent of their personal property, unless in the deed of co-partnership limited liability is arranged for. In the great majority of cases, this is done, and the Company is then a Limited Company, with some such name as "William Smith and Co., Limited." For the debts of such a Company, the shareholders can be called upon for the unpaid amounts of their shares. (The full price of the shares is not always paid at once.) The word "Limited" must be used in the title of the firm, on its notices, and at the entrance to its offices. There are Private Limited Companies whose shares are not quoted for sale in the Stock Exchange lists. By far the greater proportion of Limited Companies are now private companies. Thus, for the year 1922, the figures were :

Private Limited Liability Companies, 67,071.

Public Limited Liability Companies, 12,923.

### **Factors of Production.**

The older writers described Land, Labour, and Capital, as the three agents or factors of production, and this classification is still used. Professor Marshall added a fourth : Organisation. Logically, there are only two : (1) Land or Nature (so that seas and rivers may be included), and (2) Man, or human efforts, or, if the word be used to include efforts of mind and body,

Labour. In this sense, Labour upon Land results in semi-permanent contrivances which are called by the general name of capital. They are conveniently expressed in terms of money, more conveniently than any other of these "factors." But money, as money, is not one of the great agents of production. It is part of the machinery of economic activity. Roads and machines and buildings are real capital. Their value in gold is only an assessment.

Organisation is part of Human Effort. It represents a higher branch of Labour ; not, however, the highest—that belongs to invention.

### Savings.

"The three chief sources of the accumulation of capital are :

"The savings of prudent people, who wish to provide for future contingencies ;

"The increase of business capital by men who never draw out from their business at the end of the year the full amount of the year's earnings ; and

"The 'savings' of men so rich that they cannot spend their whole income."—*Prof. H. Clay.*

### Overseas Trade, 1913, 1921, 1922, and 1923.

Year.	Imports.	Exports.	
		Produce and Manufactures of the United Kingdom.	Foreign and Colonial Merchandise.
	£	£	£
1913. . .	768,734,739	525,253,595	109,566,731
1921. . .	1,085,500,061	703,399,542	106,919,306
1922. . .	1,003,098,899	719,507,410	103,694,670
1923. . .	1,098,015,585	767,328,656	118,572,694

"The totals for 1923 are inclusive of trade with the Irish Free State since 1st April, but from the same date the direct trade of Southern Ireland with overseas

countries is not included. The details of the corrections which should be made in order to render comparable the figures for 1923 and those for earlier years are not yet available, but it is probable that the total of imports has been increased, owing to the change of basis, by approximately £25,000,000, the total of British exports by somewhat over £20,000,000, and the total of re-exports by about £6,000,000.

“Owing to the considerable differences in the price level in the different years, the aggregate values shown in the table do not reflect accurately the variations in the volume of trade. While the trade of 1921 was valued on the basis of prices much above those of the two following years, the differences between 1922 and 1923 in respect of price-level were comparatively small. The extent of the latter differences will be examined in the next issue of the ‘Journal.’”—From *The Board of Trade Journal*, Jan. 10, 1924. (Published weekly 6d., by H.M. Stationery Office.)



## PART II. (CHAPTERS V.—VIII.)

### Definitions of Money.

Current coin ; coin and promissory documents representing it (paper money), especially government and bank notes.—*Oxford Dictionary*.

That which does the money-work is the money-thing. If it does this work well, it is good money ; if it does this work ill, it is bad money.—*F. A. Walker*.

Currency . . . the whole of the circulating medium . . . coin and paper money . . . by means of which debts are paid and prices are measured . . . is synonymous with money in its broader sense.—*Sykes*.

The owner of superfluous goods will take money for them because he is convinced that he can get, now or in the future, an approximately known quantity of any sort of goods he wants. Anything that will give him that assurance or faith will act as currency, and is rightly classed as money.—*J. A. Hobson*.

Money is that which passes freely from owner to owner throughout the community in final discharge of debts and full payment for commodities.—*Sidgwick*.

### Coined Money : Dates.

B.C. c. 650. First (known) gold and silver coins made by King Gyges of Lydia. (Herodotus writing two centuries later, states this.)

A.D. 5. A good gold coinage issued by the British king Cunobelinus (Cymbeline).

c. 760. King Offa issued the first English silver pennies.

- 1503. First shillings (Eng.).
- 1562. First milled shillings (Eng.).
- 1620. First copper coins (Eng.).
- 1663. First guineas (20/-).
- 1717. Guineas of 21/-.
- 1816. Gold standard fixed. New silver coinage.  
(No more guineas minted.)
- 1860. Copper coins replaced by bronze.
- 1889. Gold coins issued before 1837 called in, and  
replaced by new coins. The loss on the  
worn gold was borne by the State.
- 1920. Silver coins, by the rise of the price of silver  
were worth *more* than their face-value.  
The proportion of alloy (copper) was  
raised from three parts in forty to twenty  
parts in forty. The new (1920) silver  
coins are thus only half silver. This  
change had two effects; it stopped the  
danger of silver coins being melted down,  
and it caused the price of silver to fall.  
It had risen as high as 7s. 5d. per ounce.  
After the Act it fell quickly to 2s. 7d.  
per ounce.

**Money Terms** (see also Banking Terms).

*Alloy*.—(1) Metal mixture, usually of two metals.

- (2) The baser of the two metals mixed. In the  
case of gold and silver coins, the alloy is  
copper. The alloyed gold or silver is much  
harder than the pure metals. Bronze coins  
are 95 parts copper, 4 parts tin, and 1 part  
zinc.

*Billon*.—The word is used in three ways, to mean :—

- (1) Bronze or copper coins,
- (2) debased coins,
- (3) token coins.

The first was the original (French) meaning.

*Bimetallism*.—A system of currency where two metals (gold and silver) :

- (1) are both of them legal tender to any amount ;
- (2) are under the same conditions as to coinage :  
if free coinage for one, then for both ;
- (3) have a fixed value to each other. The Latin Union in 1865 fixed a ratio of  $15\frac{1}{2} : 1$  (*i.e.* 1 oz. gold =  $15\frac{1}{2}$  oz. silver).

The world's coinage generally has moved through three stages : silver ; bimetallism more or less complete ; gold. English money was on a bimetallic basis until 1816, when a gold standard was fixed. Germany followed in 1873. The world's trade is now carried on chiefly on a gold basis, China being the chief " silver " country. But many nations (such as India) have special arrangements about silver.

*Brassage*.—Charge made for the cost of making metal into coins. (No charge made in Britain.)

*Bullion*.—Uncoined gold or silver, usually in ingots, sometimes in " dust."

*Cambist*.—A money-changer.

*Cash*.—Ready money.

*Currency*.—(1) Whatever circulates (is current) as money. (2) More narrowly, legal money : in Britain, coins and bank-notes. The first meaning is the commoner, and it includes cheques and bills.

*Debased, Depreciated, and Deteriorated Coins*.—Debased coins are issued containing less of the precious metal than is laid down by law. Depreciated coins are such as have lost some purchasing power. Deteriorated coins have lost weight, either by fair or unfair usage. A sovereign designedly issued from the Mint with less than  $123\frac{1}{4}$  grains of gold, would be debased. A good sovereign, when prices rise, is depreciated. A worn sovereign is deteriorated, but since it still holds its full purchasing power, it is not depreciated.

*Free Coinage.*—Where a State is ready to coin gold (or silver) on offer with or without a charge being made.

*Gold Point of Exchange.*—The “point” reached by the value of the money of a country in the world market when it is more profitable to ship actual gold than to pay through banks and other agents.

*Gresham's Law.*—“Bad money drives out good.” Only true where there are coins of the same face-value, side by side, one sort containing less pure metal than the other.

More fully: If coins of the same metal, differing in weight and quality, circulate side by side at the same face-value, the worse coins will remain in circulation, but the better coins will disappear. If (1) the differences are very small, or (2) if there is a shortage of coins (of this metal) the law will have little effect.

*Latin Union.*—In 1865, the countries of France, Belgium, Italy (and later, Switzerland), formed a Union to secure that the coins of any one of these countries could pass freely to the others. Gold coins were to be fixed at  $15\frac{1}{2}$  times the value of equal weights of silver coins (bimetallism).

*Legal Tender.*—The form of payment which by law settles a debt. In Britain, farthings are legal tender up to 6d.; pennies and halfpennies to 1s.; silver to 40s.; gold and bank or currency notes up to any amount.

*Maundy Money.*—Special coins struck to be distributed by the monarch on the Thursday before Easter (Maundy Thursday).

*Mint Price of Gold.*—£3 17s. 10½d. per ounce of standard gold (22 parts gold out of 24). The Bank price is £3 17s. 9d.

*Par or Power of Exchange.*—The quantity of gold coin of one country containing the same amount of gold as in a fixed quantity of the coin of another country. French gold coin, for example, has 9 parts gold out of 10; British gold coins, 11 parts gold out of 12.

Before the war, the power of exchange was

$$\left. \begin{aligned} \text{£1 (gold)} &= 25.22 \text{ francs} \\ &= 20.43 \text{ marks} \\ &= 4.86 \text{ dollars} \end{aligned} \right\} \text{ in gold coins.}$$

*Pyx.*—See Trial of the Pyx.

*Seigniorage.*—The claim of the seigneur (or king, or government) to keep back part of the value of a coin, for renewals. No seigniorage is charged on British coins.

*Specie.*—Coined metal.

*Standard.*—The form of money by which other forms are measured. In Britain it is the pound sterling.

*Standard gold.*—22 parts gold, 2 parts alloy. (Silver coins, since 1920, are 50 per cent. silver, 50 per cent. alloy. Before 1920, there were only 3 parts alloy to 37 parts silver).

*Sterling.*—Coins of standard weight and purity.

*Token Money.*—Coins issued by a government, to pass legally for a value generally above that of the metal they contain; e.g. silver and bronze coins. For a short time, 1919–20, British silver coins were worth more as silver than as coins.

*Trial of the Pyx.*—A method of testing Mint coins.

Sample coins are put into the “pyx-chest”: one gold coin out of every 15 lbs. and one silver coin out of every 60 lbs. These are tested by a jury from the Goldsmiths’ Company. Sovereigns must be between

$$\begin{aligned} &123.07447 \text{ grains} \\ &\text{and } 123.47447 \text{ grains} \\ &\text{the standard weight being} \\ &123.27447 \text{ grains.} \end{aligned}$$

This difference allowed, 0.2 grain above or below the standard, is called the Remedy.

For “fineness” a variation of two grains is allowed. Standard fineness (22 carat) is 22 parts of gold in 24. Now,  $\frac{22}{24} = .91\bar{6}$ . The fineness must be between .9186 and .9146.

Pyx simply means "box," so that "pyx-chest" is tautological.

### Currency Note Return.

For the week ended May 21 (Wed.), 1924.

Issued :—	£
£1 Notes . . . . .	5,446,740
10/- Notes . . . . .	1,486,530
Certificates . . . . .	—
Cancelled or called in :—	
£1 Notes . . . . .	6,915,339
10/- Notes . . . . .	1,845,770
Certificates . . . . .	150,000
Outstanding :—	
£1 Notes . . . . .	223,027,698
10/- Notes . . . . .	40,249,724
Certificates . . . . .	21,730,000
Total outstanding . . . . .	285,007,422
Notes called in but not yet cancelled . . . . .	1,392,242
Government securities . . . . .	242,183,310
Gold coin and bullion . . . . .	27,000,000
Bank of England Notes . . . . .	22,450,000
Silver coin . . . . .	7,000,000
Balance at Bank of England . . . . .	90,274
Investments Reserve Account . . . . .	12,323,920
Fiduciary Issue . . . . .	235,557,422
Ratio of Gold and Bank Notes to total issue . . . . .	17'35 per cent.

The upper figures of this list show more notes being withdrawn than issued. A reduction of paper money, of this kind, is described as deflation.

"Fiduciary issue" means paper money which does not represent actual gold in the Bank.

### Currency Data.

British gold coins.

Sovereign 123·27447 grains (troy).

Troy weight  $\left\{ \begin{array}{l} 24 \text{ grains} = 1 \text{ dwt.} \\ 20 \text{ dwt.} = 1 \text{ oz.} \\ 12 \text{ oz.} = 1 \text{ lb. (troy).} \end{array} \right.$

5,760 grains = 1 lb. (troy).  
 7,000 grains = 1 lb. (avoirdupois).

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The ounce troy (480 grs.) is to the ounce avoirdupois (437½ grs.) as 192 is to 175. The pound troy is to the pound avoirdupois as 144 is to 175.

Fineness : 11 parts gold 1 part alloy.

1,000 sovereigns weigh 17½ lbs.

1,000,000 „ „ over 6 tons.

Mint price of gold, £3 17s. 10½d. per oz.

Bank „ „ „ £3 17s. 9d. „ „

An ounce of *pure* gold is £4 4s. 11½d. (The price of fine gold in London on 12th November, 1923, was quoted at £4 14s. 6d. per oz. : *Board of Trade Journal*, Jan. 10, 1924.)

One ounce of standard gold will coin into 3·89 sovereigns. Silver coins have a standard of 50 per cent. silver and 50 per cent. alloy.

### World's Production of Gold (since the discovery of America).

	Average per Year.
1493-1800 . . .	1·2 million £.
1801-1850 . . .	5·14 „
1851-1875 (*) . . .	25·0 „
1875-1895 (†) . . .	24·5 „
1896-1904 . . .	58·1 „
1906-1910 . . .	84·0 „

### World's Total Store of Gold.

1910 . . .	(about) £ Millions 2,000
1920 . . .	(nearly) £ Millions 3,000.

The British Empire produces over 60 per cent. of the world's present supply of gold, and the United States nearly 25 per cent.

\* Discovery of Australian and Californian mines, 1850.

† Discovery of South African mines, 1884; Klondike mines, 1896.

**Value of Silver.**

	Gold.	Silver.
From the discovery of America to the discovery of the Australian and Californian mines (1492-1850) . . . .	14	: 1
From 1850 to the opening of the South African mines (1850-1885) . . . .	16.3	: 1
From 1885-1900 . . . . .	27	: 1

The value of silver fell from 1900 to 1915, except for a rises during 1905-1907. In more recent years the changes have been very great. The price of silver in 1920 was double that of 1916, and nearly three times that of 1915.

**Causes of the Rise of Prices.**

1. An increased demand for goods.
2. A decreased supply of goods.
3. An increased supply of money (gold, silver, or both).

Of these, No. 1 may result from

- (1) rapid growth of population,
- (2) growth of commerce,

bringing new demands from newly created markets, such as a demand for cotton cloths from African tribes.

No. 2 may result from

- (1) Wars, which destroy goods.
- (2) Bad harvests.

No. 3 occurs when new gold and silver mines are discovered. The Californian and Australian mines were discovered in 1849-1850. Prices, which had been falling since 1818, rose sharply. They fell again, in 1896, to their lowest recorded point. The South African mines, new Australian and North American mines, increased the world's production of gold from 177 tons in 1890 to 712 tons in 1910. Prices rose from 1896 to 1914, and then more sharply still because of the War. Many economists consider the increase of the



world's supply of gold to be the chief cause of the rise in prices at these two periods.

The rise and fall mentioned here was not steady or uniform. During the rise after 1896, for example, there were two short falls, one after 1900, and another after 1907.

### Quantity Theory of Money.

According to this theory, as the quantity of money in circulation increases, prices rise. The reason given is that the world's gold (and silver), being exchanged for the rest of the world's goods, will still be so exchanged if the quantity of gold is, for example, doubled. Then each ounce of gold will only buy half as much as before—if the quantity of other goods remains the same : thus, in crude form,

- (1)  $\square$  gold exchanges for  $\boxed{\phantom{000}}$  goods.  
 (2)  $\boxed{\phantom{00}}$  „ „ „  $\boxed{\phantom{000}}$

But other influences are at work, so that an exact doubling of gold-supply would not give an exact doubling of each and every price.

Certainly prices rose sharply (1) after the introduction of gold and silver from America in the sixteenth century ; (2) after the opening of new mines in California and Australia in the middle of the nineteenth century ; (3) after the opening of the South African mines at the end of the nineteenth century. But this action will be checked as the total of the world's goods increases. Some writers also claim that it is checked by (1) the increase of trade, (2) the increase of credit, (3) the speed of the circulation of money. These three points are still debated.—[See Appendix, Part I., "Gold and Prices," and "Real Wages.]

### Walré de Bordes on the Quantity Theory of Money.

(Re-arranged from Mr. J. van W de Bordes' book,

*The Austrian Crown, Its Depreciation and Stabilisation*, 1924. Published by P. S. King, 15s.)

"The quantity theory, in its more popular form—which is the form in which it is most usually held up to criticism—affirms that an increase of the monetary circulation causes a corresponding rise in the price level.

"Unfortunately, the connection between monetary circulation and price level is not so simple. Since the days of John Stuart Mill the reservation 'other things being the same' has been added to the quantity theory in its above form. . . . The reservation 'other things being the same' deprives the quantity theory of much of its value for practical application. . . . When girt about with all these reservations, the quantity theory resumes the following form:—

"An increase of M will cause a corresponding increase of P unless, as is probable, the other elements of the equation are also modified—except, of course, when the changes in these elements do not neutralise one another."

The equation, as Mr. de Bordes gives it, is:—

$$M \times V \times M' \times V' = P \times G \times S$$

where

- M = the average quantity of money in circulation,
- V = the average velocity of the circulation of money,
- P = the average price of the goods,
- G = the average quantity of goods in circulation,
- S = the average velocity of the circulation of the goods,
- M' = the average quantity of deposits used for payments,
- V' = the velocity of circulation of these deposits.

Mr. de Bordes is an economist who dealt with the question of the Austrian currency, which fell in value, after the war, to an absurdly low level. It was restored in 1923, through a loan arranged by the League of

Nations. It was stabilised simply because and when confidence was restored. The Austrian krone was not lifted to its pre-war value, nor was this attempted. But it was stabilised. Nor was this effected by reducing the currency; in fact, the circulation actually increased. The lesson seems to be that confidence is the main foundation of a currency. Even a limitation of the currency (paper or other) seems to have its chief effect indirectly, by restoring confidence.

The currencies of Russia and those of Germany were stabilised shortly after that of Austria—in 1923 and 1924.

### Value.

Value (in economics) always means value-in-exchange, or exchange value. Utility means value-in-use, or utility value.

Where the supply is unlimited there can be no Value (exchange value) though there may be great utility (*e.g.* air).

Limitation of supply is essential to Exchange value.

Utilities without exchange values are not usually dealt with in Economics.

Value is "power in exchange."

Professor Carver gives this summary of ideas of economic values :

"To summarise: the economic value of an object is variously defined as

"(1) Its price; that is the amount of money for which it sells. (This is a wrong use of the word "value.")

"(2) Its utility, which may mean

(a) Its power to satisfy any desire.

(b) Its power to satisfy a commendable desire.

(This is also a wrong use of the word 'value.')

"(3) Its power to affect the well-being of

(a) An individual.

(b) Society, or the nation.

(This comes nearer to the point.)

“(4) Its power over human motives :

- (a) Causing men to exert themselves in order to get it.
- (b) Causing men to give other desirable things in exchange for it, because of
  - (i) The intensity of their desire for it.
  - (ii) The abundance of other desirable things in their possession.”

### Price.

The estimation of the value of goods or services in terms of money. Value as expressed in terms of a unit (money).

### The Fall of the German Mark.

The mark, by the mint par of exchange, was valued before the War at 20·429 to the pound. That is, it was worth a little less than a shilling.

Year.	No. of marks to £1 sterling.
1913 . . . . .	20
1918 (Dec.) . . . . .	70
1920 (Dec.) . . . . .	257
1921 (Dec.) . . . . .	300
1922 (Jan.) . . . . .	810
1922 (Aug.) . . . . .	6,500
1922 (Sept.) . . . . .	9,000
1923 (Jan. 1st) *	33,000
1923 (Jan. 18th)	120,000
1923 (May) . . . . .	200,000
1923 (Sept.) . . . . .	18 billions
	(18,000,000,000)
1923 (Oct.) . . . . .	New coinage

### Definitions of Bank and Banker.

An institution in the hands of a joint-stock company, or of a private person, for receiving money,

\* Invasion of the Ruhr, Jan. 11, 1923.

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keeping it secure till required again by the owners, and turning it meanwhile to profitable account.—*Encyclopedic Dictionary*.

Bankers are just like ordinary merchants. Merchants deal in goods, bankers in capital, in the form either of credit documents or of coin. . . . Borrowing and lending are the two fundamental transactions in banking commerce.—*Gide*.

A banker's function is not to take care of other people's money; he buys other people's debts and collects them; he is in short a dealer in money and credit.—*Sykes*.

A banker is a dealer in capital, or more properly a dealer in money.—*Gilbart*.

Banks are not markets for capital (the Stock Exchange is that), but for purchasing power. The function of bankers is the control of purchasing power.—*Foxwell*.

### London Bankers' Clearing House Returns.

Year	£
1918 . . . . .	21,197,512,000
1923 . . . . .	36,627,592,000

### New Investments of Capital.

Year	£
1920 . . . . .	384,210,818
1922 . . . . .	235,668,550
1923 . . . . .	203,759,754

### Suspension of the Bank Act.

The Bank Act of 1844 prevents the Bank of England from issuing more than a certain amount in bank notes, except against a reserve of gold actually held by the Bank. In times of crisis, the government has issued an Order in Council, permitting the Bank to issue more than the fixed amount in paper. This is called suspending the Bank Act. It was done in 1847, 1857, 1866, and 1914. But in 1914 the power to issue more paper was not used.

**Banks in History.**

Banking is said to have been known and used in the ancient world : for example, in Babylon at the time of the Jewish Captivity (B.C. 586-538), but the records are slight. The ancient Greeks and Romans had banks. The Chinese had banks and banknotes at least five or six centuries ago.

- 1157. Bank of Venice.
- 1345. Bank of Genoa.
- 1401. Bank of Barcelona.
- 1609. Bank of Amsterdam.
- 1694. Bank of England.

**Bank of England.**

For the year 1923 (figures rounded) :

	Million Pounds.
Notes issued . . . . .	145½
Gold and silver reserve . . . . .	126

The nineteen millions of difference represents money owed to the Bank by the Government. Originally this was (1694) £1,200,000.

Bank Capital, £14,500,000. Deposits, £130,000,000.

**Foreign Exchange.**

Selected items from *The Times* list given May 23, 1924, for the previous day. Berlin, not quoted in the *Times* list, stood at 18½ to 18¾ billions (*i.e.* that number of marks to the pound sterling).

Place.	Method of Quoting.	Par of Exchange.	May 22, 1924.
New York . . . . .	\$ to £	4.86½	4.35-4.36½
Paris . . . . .	Fr. to £	25.22½	77.15-79.25
Brussels . . . . .	Fr. to £	25.22½	91-93
Milan . . . . .	Lire to £	25.22½	97½-98½
Berne . . . . .	Fr. to £	25.22½	24.59-24.65
Lisbon * . . . . .	Escu.	53½d.	18½-18

\* Telegraphic transfers.

## BANKING AND EXCHANGE TERMS 197

Place.	Method of Quoting.	Par of Exchange.	May 22, 1924.
Amsterdam . . .	Fl. to £	12.107	11.64 $\frac{1}{4}$ —11.66
Berlin . . .	M. to £	20.43	18 $\frac{1}{4}$ —18 $\frac{3}{4}$ billions
Vienna . . .	Kr. to £	24.02	307—314,000
Bombay . . .	Per rupee	24d.	1/43 $\frac{3}{4}$ —41 $\frac{1}{8}$
Yokohama . . .	Per yen	24.58d.	1/10 $\frac{3}{16}$ — $\frac{7}{32}$
Shanghai . . .	Per tael	—	3/3 $\frac{1}{4}$ —3/4
Rio de Janeiro * . .	Per mil.	27d.	5 $\frac{3}{4}$ —5 $\frac{5}{8}$

For “Par of Exchange” see page 186. Most of the items are given by the method: “so many to the £1 sterling.” The last four are given by another method: the value of a rupee, for example, in pence: par of exchange, 24 pence; on May 22nd, 1924, from 1s. 4d. and twenty-nine thirty-seconds of a penny, to 1s. 4d. and fifteen-sixteenths of a penny.

### Confidence and the Foreign Exchanges.

The following quotation from *The Daily News*, June 13th, 1924, illustrates what is said in the text about money affairs being based on confidence:—

“In the earlier dealings there was a further recovery in the value of the French franc to 80.85, the resignation of M. Millerand being regarded as a hopeful augury for French politics, but the rate weakened later to 81.60.”

### Banking and Exchange Terms.

*Account.*—A current account at a bank represents what is paid in or taken out, day by day. No interest is allowed on it. On a deposit account interest is allowed (after 30 days) but withdrawal is subject to a definite length of notice.

*Allotment.*—The division of shares in a new company among those who have applied for them. Shares are often “over-subscribed”; that is, more than the amount asked for is offered by intending purchasers.

*Arbitrage.*—Buying Bills of Exchange in one place to sell them in another.

*Bank Holidays.*—General holidays and bank closures

fixed by an Act of 1871. In England, Easter and Whit Mondays, the first Monday in August, Dec. 26. In Scotland, Jan. 1, the first Monday in May and in August, Christmas Day. If any of these falls on a Sunday, it is replaced by the Monday following.

*Banking Principle.*—That the amount of paper money issued need not depend on the amount of gold and silver in circulation, but should be increased according to the demands of trade. Notes should be immediately convertible into coins, and this is the only check needed (see Currency Principle).

*Bank Rate.*—The percentage of discount charged by the Bank for giving money for bills which cannot be cashed until some future date. The Bank must wait for that date before it can turn a bill into cash. Raising the Bank rate is a method of checking a flow of gold out of the Bank's cellars and out of the country. The only store of gold of any size in the British Isles is in the cellars of the Bank of England. In February, 1923, this was nearly 126 millions.

*Bank Rate.*—July 29–Aug. 1, 1914, 3 per cent., 4 per cent., 8 per cent., 10 per cent., in four days. July, 1922, 3½ per cent., 3 per cent. July, 1923, 4 per cent. May, 1924, 4 per cent. July, 1924, 4 per cent.

*Bank Return.*—A statement is issued weekly by the Bank of England. The example below is the return for the week ending Wednesday, May 21, 1924. The return is prepared on Thursday, and appears in the Friday morning papers.

#### ISSUE DEPARTMENT.

Notes issued	£146,105,860	Govt. Debt	£11,015,100
		Other securities	8,734,900
		Gold coin and bullion	126,355,860
		Silver bullion	—
	£146,105,860		£146,105,860



## BANKING DEPARTMENT.

Capital . . . . .	£ 14,553,000	Govt. securities . . . . .	£42,070,403
Rest . . . . .	3,220,497	Other securities . . . . .	72,185,707
Public deposits * . . . .	18,367,124	Notes . . . . .	21,587,795
Other deposits . . . . .	101,522,888	Gold and silver coin . . . . .	1,825,551
Seven-day and other bills . . . . .	5,947		
	<hr/>		<hr/>
	£137,669,456		£137,669,456

The "Government Debt" of £11,015,100 was what the Government owed the Bank when the Bank Act of 1844 was passed. By that Act also, if any Country Bank ceased to issue notes (several banks then had private note-issues), the Bank of England might replace them to the extent of two-thirds. The £8,734,900 "Other securities" represents this two-thirds of notes formerly issued by other banks. These two items, totalling £19,750,000, represent the total "fiduciary issue" of bank notes (not of currency notes, £1 and 10/-) : that is, the notes which do not stand for actual gold in the Bank. In round numbers, then : out of 146 million pounds, in bank notes, on May 21, 1924, 126 millions were "covered" by actual gold in the Bank.

The Banking Department figures refer to banking business which is kept quite separate from the issue of notes.

*Bear.*—A Stock Exchange speculator who sells shares (which he usually does not possess), believing that they will fall in price before the Settlement day. On that day he hopes to buy the stock cheap, and so make a profit.

*Bill of Exchange.*—A signed order from A to B, telling B to pay C. B holds some of A's money or owes money to A. He is to pay part of this to C, on A's instruction. A is called the drawer, B the drawee or acceptor, C the holder. Copies are often made, called the second of

\* Including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts.

exchange, or third of exchange, to be used in case of the loss of the original "first of exchange."

*Bill Broker.*—One whose business consists in buying and selling bills of exchange. When he deals largely in foreign bills of exchange he is called an exchange broker.

*Bonus Shares.*—Additional shares in a company, given to the shareholders instead of, or, more generally, in addition to their dividends. There is no new capital put into the company, but a dividend of 5 per cent. on capital will be a dividend of twice that amount to any shareholder who has had a bonus share given to him. The method was used very largely in the years 1916–1921. Thus the Oceanic Steamship Company, in 1916, gave its shareholders four new shares for each share held. The *Economist* newspaper of March 23, 1918, gave a list of such cases. About eight millions out of a total of 25 millions (£), the capital of twenty engineering firms, consisted of bonus shares. One large firm gave 50 per cent. bonus shares in 1905 (£5 share for every £10 held), 50 per cent. again in 1912, and 100 per cent. in 1924. In that year, three millions of its capital of 4½ millions was formed of bonus shares (see also p. 206).

*Boom.*—A period of trade activity. ("Slump" is used as the opposite term.)

*Bourse.*—French and Continental term for Exchange. (From French *bourse*, a purse.)

*Bull.*—A speculator who expects a certain stock to rise, and buys it; usually, however, postponing payment until settling day, when he can sell instantly at a higher price the stock on which he has established a claim.

*Cheque.*—A bill of exchange "drawn on" a banker, and payable on demand. If two lines are drawn across it, with "& Co." written between them, it is a crossed cheque, and can only be cashed by a person who has a banking account.

*Clearing House.*—A place where the claims of different

banks on one another, in cheques and bills, are totalled and balanced daily. Bank A owes £17,250 to Bank B, but Bank B also owes £17,100 to Bank A. On the balance, Bank A owes £150 to Bank B.

*Consols.*—In 1731 various Government debts were gathered into one Consolidated Fund. Stock in this fund came to be called "Consols."

*Convertible Paper.*—Paper money that can be exchanged on demand for specie, to its full value, at the bank issuing it.

*Currency Principle.*—That banks should not be allowed to issue paper money beyond the total of the gold and silver in circulation. This principle was adopted in the Bank Act of 1844. (See Banking Principle.)

*Debenture.*—A document which gives a claim to the holder on the property of a company, with a fixed rate of interest.

*Exchequer Bills.*—Bills for money borrowed by the Government, to be repaid in 3, 6, or 12 months. Exchequer bonds are issued for a term of years, six or less.

*Fiduciary Issue.*—The quantity value of Bank notes that the Bank of England is permitted to issue, over and above the metal held as security.

*Funds.*—See National Debt.

*Inconvertible Paper.*—Paper money that cannot be changed for coin on demand. British bank notes were inconvertible from 1797 to 1821. They have been almost, but not completely, inconvertible since 1914: that is, they are not convertible into gold (a) on demand, and (b) to any amount.

*Inflation.*—An over-issue of paper money, causing a fall in the value of money (reduced purchasing power), an increased cost of living, a rise of prices. Professor Kammerer defines inflation thus: "When, at a given price level, a country's circulating media, i.e. money and deposit currency, increase relatively to trade needs."

*Mint Par (Power) of Exchange.*—A comparison between values of gold coinages. The gold coins of different countries vary in weight and in the percentage of pure gold they contain. When the weight and purity of each coin is known, tables of comparison can be reckoned out. (See page 63 for an example.)

*Table reckoned in terms of the sovereign*

	£1=
Amsterdam .	12·107
Berlin .	20·43
New York .	4·866
Paris .	25·225

These are the numbers of Gulden, Marks, Dollars, Francs, to the pound sterling, reckoning in all cases by the value of gold coins. Other coins are reckoned only as fractions of the gold coin. A shilling, for example, would be expressed in gold, although there are no gold shillings, simply by taking one-twentieth part of a sovereign.

### National Debts.

Moneys borrowed by the Government, for which interest is paid to the lenders. National Debts are almost entirely war-debts.

### British National Debt.

Year.	Amount.
1689 . . . .	£1,054,925
1697 . . . .	£21,500,000
1713 . . . .	£53,680,000
1766 . . . .	£136,600,000
1816 . . . .	£876,000,000
1914 . . . .	£845,000,000
1920 . . . .	£7,879,000,000
1924 . . . .	£7,680,484,000

Interest on the debt for the year 1924-25, £350,000,000.

The National Debt consists of three parts : (1) The *Funded Debt* to be repaid at the option of the Government. (2) The *Unfunded Debt*, to be repaid by a certain date : recent War Loans, Victory Bonds, and Exchequer Bonds. (3) *Floating Debt*, consisting of moneys borrowed for a few months. Treasury Bills (bearing no interest) are part of the Floating Debt, and so are the borrowings for short periods from the Bank of England.

### From the Financial Statement, 1924-1925.

#### THE NATIONAL DEBT.

	Internal. £	External. £
National War Bonds, and War Loan, at $3\frac{1}{2}$ , 4, $4\frac{1}{2}$ , 5, and $5\frac{1}{2}$ per cent. . . . .	3,061,791,000 . . . . .	—
Treasury Bonds, at 4, $4\frac{1}{2}$ , 5, and $5\frac{1}{2}$ per cent. . . . .	472,664,000 . . . . .	—
Victory Bonds (4 per cent.), etc. . . . .	2,938,933,000 . . . . .	—
Exchequer Bonds at $5\frac{1}{2}$ per cent. . . . .	134,617,000 . . . . .	—
U.A.S. Govt. Loan . . . . .	. . . . .	940,479,000
Other External Loans . . . . .	. . . . .	132,000,000
Totals . . . . .	£6,608,005,000 . . . . .	£1,072,479,000
Grand Total, £7,680,484,000		

*Not Negotiable.*—If these words are added to a crossed cheque, they make the rights of the holder the same as those of the former holder had been, no more and no less. Therefore, the acceptor of such a cheque can make no legal claim if, for example, the cheque should prove to be worthless.

*Open Cheque.*—One that is not crossed. An open cheque can be cashed at the bank of issue.

*Preference Shares.*—Shares in a company which receive dividends before other shares.

*Sinking Fund.*—A fund formed from annual savings to pay off a debt. This method is used in reducing the National Debt. It was first used by Walpole in 1716.

*Watered Stock.*—Additions to the nominal capital of a company, for which there is no added capital in cash, or its equivalent in work, are described as “water.” If the capital of a company is doubled in this way, then a 5 per cent. profit is really 10 per cent. on the actual capital. See “Bonus Shares.”

## **The Money Market.**

### *I. The Banks.*

Bank of England.  
London Clearing House Banks.  
Provincial Banks.  
Scottish and Irish Banks.  
Colonial Banks.  
Foreign Banks.

### *II. Discount and Accepting Houses.*

(Sometimes I. and II. only are described as “the Money Market”; but the institutions put below, are closely connected.)

### *III. The Foreign Exchange Market.*

### *IV. The Stock Exchange.*

### *V. The Bullion Market.*

For practical purposes Joint-Stock Companies might almost be added as No. VI. of this list, for they form part of the actual operations of the money market. Strictly, however, they do not so belong.

## **The Moratorium.**

When war was threatened in July, 1914, many values lay under that threat, chiefly the greatest values of all, human lives. The shadow of threatened war, among other things, fell on the London accepting houses, the discount houses, and the banks. It was a shadow that might be followed by bankruptcy. The reason was this:

In the ordinary way of business, the London houses

had "accepted" great numbers of bills of exchange. The extent and variety of British trade had made London a world centre for money dealings. Among the traders of every port, "bills on London" were (and are) well known. They had become a kind of international money. Thus, a Chilean firm, trading nitre to Hamburg, would generally prefer to be paid by bills, not on Hamburg, but on London: that is, by bills which had been "accepted" by a known London house or bank. The weekly total of German bills accepted by London houses was reckoned at any time during 1913-14 at about 70 millions sterling.

Now, in accepting these bills, the London houses made themselves responsible for their payment: and these 70 millions were the German bills alone. Most of the bills were in the hands of English merchants. If large numbers of them had been presented for payment at once, many of the houses would have been unable to meet them. Bankruptcy would have followed: there might have been general alarm about the safety of money, with a "run" on the banks by anxious depositors.

The following steps were taken to prevent a panic:

(1) The Bank of England raised its rates of discount (its charges for lending money) from 3 per cent. on July 30th to 8 per cent. on July 31st, and to 10 per cent. on August 1st, 1914. This was to "make money dear" and so to keep gold in the country, for gold goes where it is in most demand. This action, however, was in itself too much like a panic to be the best way of stopping a panic, and by August 8th the rate was brought down to 5 per cent.

(2) The Stock Exchange was closed on July 31st for five months. When it was opened again, in January, 1915, it was under the control of the Government (Treasury), and so remained until May, 1922.

The Stock Exchange had then (July, 1914) on hand loans of about eighty million pounds.

(3) The August Bank Holiday was extended to three days, during which the Banks were closed. This checked a "run for gold" which had already begun at the Bank of England.

(4) New notes were issued for £1 and 10/-, under the guarantee of the Government (Treasury), payable in gold at the Bank of England. When people (traders and merchants) knew that they could get gold for these notes, they lost any keen desire to do so, and the notes readily took the place of gold coins.

(5) A Moratorium was declared, that is, a period during which debts need not be paid. It lasted from August 4th to November 4th, 1914. During these months, the gold in the Bank of England increased by over fifty million sterling : almost the whole of this was imported from abroad.

(6) The Bank Act was "suspended" by the usual method of a letter from the Treasury, permitting the issue of notes beyond the limit fixed. The permission, however, proved to be unnecessary, chiefly because of the issue of Treasury notes (4, above).

### **Limited Companies : Share Capital.**

The following quotation from a press notice (July, 1924) illustrates :

(a) The method by which one company holds shares in another ;

(b) The influence of fashion on manufacture (in this case, silk stockings) ;

(c) The "bonus share" method (see p. 200).

(d) The cash value of "expectations."

"Courtaulds, Limited, are the greatest manufacturers of artificial silk, and, in addition to their works in this country, they own the share capital of a similar concern in the United States, called the American Viscose Company. That Company is also doing marvellously well, and Courtaulds' directors have decided to increase the



value at which the American shares stand in their books from £7,804,021 to £16,013,629. This bookkeeping entry enables them to give their shareholders a bonus of two 5 per cent. Preference shares for every three Ordinary shares held, which means the distribution of no less than eight million bonus shares.

"Since 1914 Courtaulds have multiplied their capital tenfold by bonuses. In 1919 shareholders were given one bonus share for every share held, thus raising the capital from £2,000,000 to £4,000,000; in 1920 they gave two bonus shares for every share held, bringing the capital to £12,000,000; and now a third bonus brings it to £20,000,000. In the same period annual profits have increased from £500,000 to £3,000,000.

"In expectation of some such bonus, Courtaulds have been a speculative counter for the past few years. Now that it is declared, there will be less to 'go for,' and the shares are probably high enough, for such gigantic profits necessarily bring competition in their train, and the industry is not one in which a combine or price agreement can be fixed up internationally—not yet, at any rate, as new processes are still being discovered."

Another press notice of the incident made clear the fact that the movement here is not industrial or commercial, but financial.

"The 12,000,000 Ordinary Shares of Courtaulds, Limited, increased in market value on Friday by £3,750,000. The cause was the announcement by the directors that they had decided to value the Viscose shares at £16,013,629, instead of at £7,804,021. . . . Why this decision should have a value of £3,750,000 is one of the mysteries of the Stock Exchange. Nothing has been added to the Company's assets. Its earning power is unaltered. All that has happened is that a certain number of book entries have been made by which the assets have been written up by £8,209,608."

### A Scheme for Steadying Prices.

“The business world has to provide for the considerable period which elapses between beginning the process of production and the consumer getting the goods and paying for them. In different industries that interval of time varies, but in many industries it is not less than six months from the beginning to the end of the process, and, where long distances are concerned, it is very often a great deal more. All through that time the *entrepreneur* is engaged in paying out money for wages, and in other ways, which he will recoup when he sells his article for money.

“All his normal calculations as to his profit and the right level of wages and so forth are based on the assumption that money is going to be worth more-or-less the same at the end of the period than it is at the beginning. If it is worth a very different amount, then such normal calculations are thrown out. . . . One of the principal ways in which the financial factor operates is to cause, rightly or wrongly, an expectation in the minds of individual persons that prices are going to move in a certain direction ; and if the business world as a whole is widely of the opinion that prices are going to fall, then there will be numerous individuals who can only protect themselves from loss by throwing their employees out of work, though the things those employees would make if they were in work are necessary and useful and desirable, at their real cost in terms of effort, to the community as a whole. . . . There are two kinds of banking : there is the kind of banking undertaken by the ordinary banker, . . . whose main business it is to see that his customers are solvent and suitable to lend money to, and who directs the deposits of the community into the most advantageous channels. . . . But there is also this totally different problem of national policy in the aggregate of credit as a whole, as distinct from the particular individuals who obtain it. This is a matter which should

be in the hands of the Bank of England and of the central authorities generally. . . .

“One method (*i.e.*, of preventing unemployment by controlling credit) is by adjusting the Bank Rate. I personally have come more and more to the view that the more powerful method would be variations in the volume of deposits in the Bank of England available to the joint-stock banks as the basis of their working credit. . . . This is a matter which is just as much under the control of the Bank of England as the bank rate is, because by buying or selling conversion loan or any other security they can reduce the bankers’ balances or increase them within considerable limits at will. . . .

“It is not the actual rise or fall of prices that causes unemployment. . . . What chiefly causes unemployment is anticipation of falling prices.”—*J. Maynard Keynes, C.B. (1924).*

## PART III. (CHAPTERS IX.—XIV.)

### Competition.

“The free action of individual self-interest.”

“Its competitors or rivals are (1) Custom, (2) Combination or Monopoly, (3) Socialism.”

“Competition is contrasted with monopoly and combination; with governmental regulation, charity, and custom.”

Arguments for and against Competition :

- (1) It is natural. (But competitors do not “start fair.”)
- (2) It is “human nature.” (But so are its rivals.)
- (3) It results in “the survival of the fittest.” (But the fittest may mean one very fit to undercut and overreach others, but unfit to be a good citizen.)—(Condensed from the *Dictionary of Political Economy*.)

“Economic freedom, which means freedom of enterprise, does not necessarily mean industrial competition. It includes freedom of contract and association, freedom on the part of firms to arrange not to compete with each other and on the part of workers not to undersell each other’s labour. It covers freedom of combination, and such combination may be monopolistic. As an operative force competition has indeed lost its efficiency over a wide range of industries, and threatens to lose it over a still wider range when the immediate effects of the war

have disappeared. Competition, in short, accomplishes its own destruction and the creation of monopoly. . . .

"Competition assumes equality of opportunity, that is, opportunity of acquiring full knowledge and mobility between trades and professions. . . .

"No industry which is intrinsically competitive has yet been controlled by the State. . . .

"In strictly competitive industry it seems to me that the true function of the State (or municipality) is to make competition effective, by enforcing publicity."—*J. Harry Jones, M.A., Social Economics, 1920.*

"'Every man for himself' is the principle of disorganisation and chaos; 'every man for mankind' is the principle of organic unity. . . .

"Co-operation aims to increase the margin from which the increment of gain is to be drawn. It makes industry more productive. . . . The key to the question as to what system ought to emerge from the present chaotic condition of industry is found in the fact that employers and workmen sustain to each other two distinct relations, of which one is antagonistic and the other harmonious. In merely dividing the product of industry their interests conflict; in creating it they are in perfect harmony. Competition and even arbitration bring into prominence the relation which develops conflict; co-operation brings into view the relation tending to unity.

"We used constantly to be told, and still frequently hear, that no intelligent conflict between capitalists and labourers is possible: that their interests are completely identical, and that their normal relation is one of paradisaical harmony. Frequently as this statement was formerly reiterated, the labourers were not convinced; and, in the meantime, the practical relation between them and their employers grew constantly less paradisaical. . . . We have said that there is harmony of interest between the two industrial classes in the operation of production, and diversity of interest in the operation of

distribution. Under a wage system the effect of this twofold relation is to create a conflict, and at the same time to set limits to the overt acts to which the conflict might lead. So long as this system continues, the utmost that is to be hoped from education is that the limitations may be applied wisely. Capitalists and labourers are interested that as much wealth as possible shall be produced, for both are dependent on the product. When, however, the product is realised, the relation changes; the question is now one of mere division. The more there is for the owner, the less can go to the men; and no education can remove this source of conflict.”—*Professor J. B. Clark* (published 1885).

### **How the Retail Price (of Coal) is Fixed.**

“It must be definitely stated at the outset that the price of coal to the consumer is fixed by competition. There is no machinery or organisation that can either compel any merchant or dealer to sell at the same price as other merchants or dealers, or prevent him from selling at a lower price. But, in fact and in practice, the margin between the price charged by one merchant and another in the same market does not vary appreciably. . . .

“What, then, happens? The price of coal at the pit-head has risen and a particular merchant perhaps decides that he can continue to sell retail at the old price, in the belief that the increase at the colliery cannot be maintained; or that by so doing he will increase his sales in competition with the other dealers and make up in increased turnover the reduced profit on each individual ton. For some time he carries on this principle, but sooner or later he finds that he has been too optimistic, or that his calculations have been slightly incorrect, or that new customers are not coming to him.

“Then the inevitable happens. He discusses the matter with some of his friends and they come to the conclusion that whatever action certain other dealers may



or may not see fit to take, they, at least, cannot afford to continue to sell coal at existing prices. They, therefore, alter their price-lists and post notices at their own order-offices announcing the alteration."

*The Price of Coal: Being the Case for the Coal Distributors.* Issued officially by the Coal Distributors' Information Department, July, 1924.

### Co-operation.

The British Co-operative movement is usually dated either from Robert Owen ("The Father of the Co-operative Movement"), who introduced the system in his mills at New Lanark, in 1806; or from the "Rochdale Pioneers." These were 28 Lancashire weavers who saved from their weekly wages a sum of £28, with which they opened a small shop to supply their families with food and clothing, on a "no-profits" plan. Whatever surplus might have become profit was distributed to the members. The effect is equal to a reduction of prices, and the method of it offers an easy way of saving.

The Co-operative Retail Societies now own their own Wholesale Society, and manufacture many kinds of goods, from boots to biscuits, at their factories.

### 1923 FIGURES.

Members, over  $4\frac{1}{2}$  millions.

Capital, over 130 millions (£).

Sales, over 253 millions (£).

Employees about 184,000.

1529 Societies (Great Britain).

There are Co-operative Societies established in most European and in many other countries.

### DATES.

1844. Rochdale Pioneers. First Retail Society.

1864. Wholesale Society formed.

1872. First large factories.



**Theories of Value.**

“The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called ‘value in use’; the other, ‘value in exchange.’ The things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water; but it will purchase scarce anything; scarce anything can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it. . . .

“The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities. The real price of everything, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. . . .

“Wealth, as Mr. Hobbes says, is power. . . . The exchangeable value of everything must always be precisely equal to the extent of this power which it conveys to the owner. But though labour be the real measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated. It is often difficult to ascertain the proportion between two different quantities of labour. The time spent in

two different sorts of work will not always alone determine this proportion, The different degrees of hardship endured, and of ingenuity exercised, must likewise be taken into account. There may be more labour in an hour's hard work than in two hours' easy business; or in an hour's application to a trade which it cost ten years' labour to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure either of hardship or ingenuity. In exchanging indeed the different productions of different sorts of labour for one another, some allowance is commonly made for both. It is adjusted, however, not by an accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality which, though not exact, is sufficiently so for carrying on the business of common life. . . .

"Labour alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only.

"But though equal quantities of labour are always of equal value to the labourer, yet to the person who employs him they appear sometimes to be of greater and sometimes of smaller value. He purchases them sometimes with a greater and sometimes with a smaller quantity of goods, and to him the price of labour seems to vary like that of all other things. It appears to him dear in the one case, and cheap in the other. In reality, however, it is the goods which are cheap in the one case and dear in the other.

"In this popular sense, therefore, labour, like commodities, may be said to have a real and nominal price. Its real price may be said to consist in the quantity of the necessities and conveniences of life which are given for it; its nominal price, in the quantity of money. The

labourer is rich or poor, is well or ill rewarded, in proportion to the real, not to the nominal price of his labour.”  
 —*Adam Smith : The Wealth of Nations.*

### Marx's Theory of Value.

“A use-value, or useful article, therefore, has value only because human labour in the abstract has been embodied or materialised in it. How then is the magnitude of this value to be measured? Plainly, by the quantity of the value-creating substance, the labour, contained in the article. The quantity of labour, however, is measured by its duration, and labour-time in turn finds its standard in weeks, days, and hours.

“Some people might think that if the value of a commodity is determined by the quantity of labour spent on it, the more idle and unskilful the labourer, the more valuable would his commodity be, because more time would be required in its production. The labour, however, that forms the substance of value, is homogeneous human labour, expenditure of one human labour-power. The total labour-power of society, which is embodied in the sum-total of the values of all commodities produced by that society, counts here as one homogeneous mass of human labour-power, composed though it may be of innumerable individual units. Each of these units is the same as any other, so far as it has the character of the average labour-power of society, and takes effect as such ; that is, so far as it requires for producing a commodity, no more time than is needed on an average, no more than is socially necessary. . . . The introduction of power-looms in England probably reduced by one-half the labour required to weave a given quantity of yarn into cloth. The hand-loom weavers, as a matter of fact, continued to require the same time as before ; but for all that, the product of one hour of their labour represented after the change

only half an hour's social labour and consequently fell to one-half its former value.

"We see then that that which determines the magnitude of the value of any article is the amount of labour socially necessary for its production. . . .

"The value of a commodity would therefore remain constant, if the labour-time required for its production also remained constant. But the latter changes with every variation in the productiveness of labour. . . .

"The value of a commodity, therefore, varies directly as the quantity, and inversely as the productiveness, of the labour incorporated in it. . . .

"A thing can be a use-value, without having value. This is the case whenever its utility to man is not due to labour. Such are air, virgin soil, natural meadows, etc. . . . Lastly, nothing can have value, without being an object of utility. If the thing is useless, so is the labour contained in it; the labour does not count as labour, and therefore creates no value."—*Karl Marx : Capital*.

### **Hadley on Value.**

"A price is a fact. A value is an estimate of what a price ought to be.

"The word value is used in a number of wholly different meanings, but this idea of a permanent standard or cause of price, as distinguished from a temporary or residential phenomenon, lies at the basis of them all.

- (a) Sometimes value is used in the sense of utility; for instance, when I say that an article has a value to me out of all proportion to the amount for which I could sell it. (An estimate of this kind is sometimes called subjective value. But it is better to use the term utility to avoid the confusion which would otherwise arise.)

- (b) Sometimes it means purchasing power in the abstract, as distinct from concrete measures

of this power ; for instance, when I say that an article has value, though I do not know just what the price may be.

- (c) Sometimes it means purchasing power measured in commodities instead of in money. In countries with a paper currency there is frequent occasion for using the word in this sense. If the currency is doubled by act of the legislature, the prices of goods measured in this currency will tend to double also, but we are justified in saying that there is no increase of real value corresponding to this change in nominal price.
- (d) Sometimes the term value means average probable price. . . .
- (e) Finally, the word value often means a *proper and legitimate* price, as distinct from an unfair or extortionate one.

“The last is much the commonest and the most important sense of the word in commercial usage, and there seems to be no good reason against our adopting it. . . . If we say that a man is charging a higher price for an article than it is worth, we mean that he is putting the buyer at an unfair disadvantage. . . .

“The price of an article or service, in the ordinary commercial sense, is the amount of money which is paid, asked, or offered for it. The value of an article or service is the amount of money which may be properly paid, asked, or offered for it. A theory of price puts us in a position to explain the transactions of commercial life. A theory of value undertakes to pass judgment upon their advisability or their morality.

“Value being essentially an ethical term, we may have as many different theories of value as there are different views of business ethics. But these views fall under two main heads : the commercial or competitive theory, which bases value upon what the buyer

is willing and able to offer for an article; and the socialistic theory which bases it upon what the article

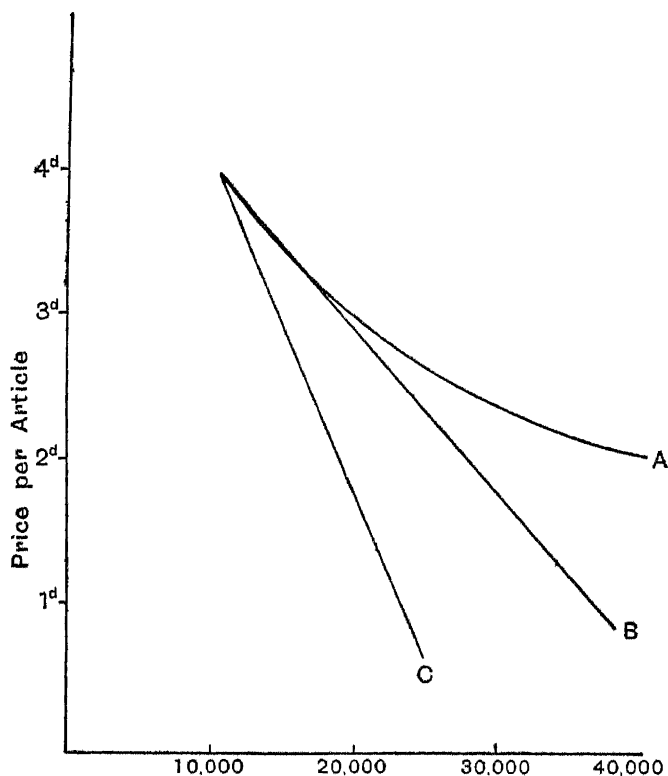


FIG. 8.—Demand Curves.

Quantities demanded at each price: A is the more usual form where demand increases *more* than in proportion to the fall in price (and *vice versa*); B, C where the amount demanded is in proportion to the price. A fall from 4d. to 2d. doubles the demand in (C), trebles it in (B), quadruples it in (A).

has cost the seller in the way of toil and sacrifice. . . . The question between the two parties is not primarily

one of fact, but of advisability. . . . To say, as Marx does, that value depends on the quantity of socially

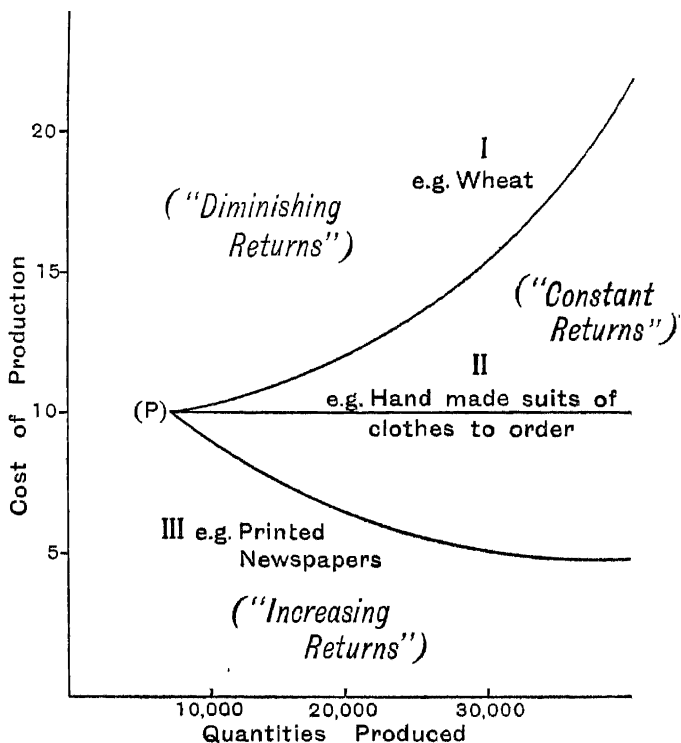


FIG. 9.—Supply Curves.

- I. Where, after a certain point (P), producing an extra 10,000 costs more than the first 10,000. II. Where costs are the same whatever the quantity produced. III. Where the cost per 10,000 falls as more are produced.

necessary labour represented by an article, introduces two conflicting standards. Social necessity is a quality which varies in degree. . . .”—*Professor Hadley: Economics.*

**Carver on Value.**

“Whenever the word price is used, if it is used properly, it means value expressed in money, or the

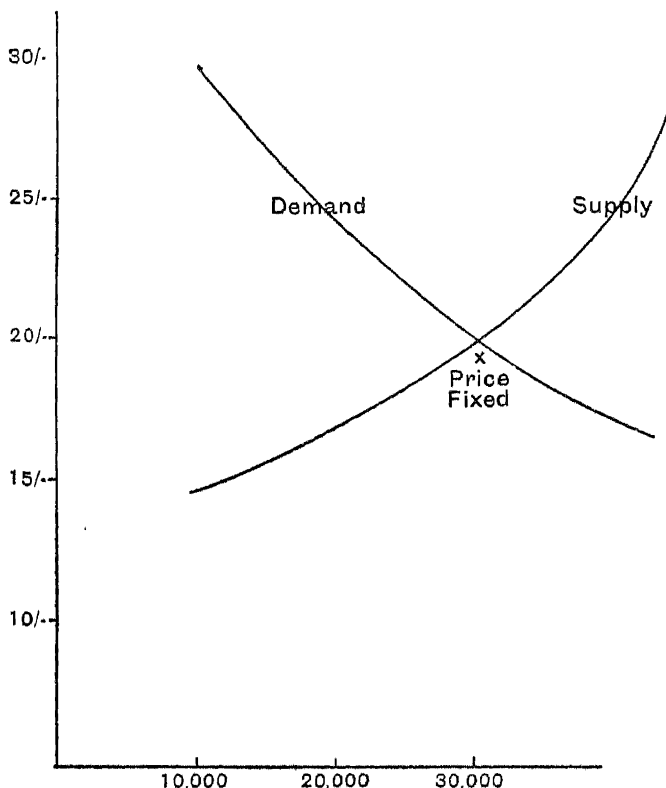


FIG. 10.—Price.

There is a demand for 30,000 at 20s. There is a supply of 30,000 at 20s. The point of intersection marks the price in a free market.

amount of money which will be given in exchange for a certain article. Wherever the word value is used, at least in connection with the general conditions of the market,



it means its general power in exchange against other articles, of which money is only one. The cheapening of money tends to create a general rise in prices, but not a general rise in values.

“To summarise, the economic value of an object is variously defined as :

1. Its price ; that is, the amount of money for which it sells. (This is a wrong use of the word value.)
2. Its utility, which may mean
  - (a) Its power to satisfy any desire.
  - (b) Its power to satisfy any commendable desire. (This also is a wrong use of the word value.)
3. Its power to affect the well-being of :
  - (a) An individual.
  - (b) Society, or the nation. (This comes nearer to the point.)
4. Its power over human motives :
  - (a) Causing men to exert themselves in order to get it.
  - (b) Causing men to give other desirable things in exchange for it, because of :
    - (1) The intensity of their desire for it.
    - (2) The abundance of other desirable things in their possession.”—*Professor Carver.*

[No. 4 is the definition Professor Carver accepts.]

### Marshall on Value.

“We might as well dispute whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper, as whether value is governed by utility or cost of production. It is true that when one blade is held still, and the cutting is effected by moving the other, we may say with careless brevity that the cutting is done by the second ; but the statement is not strictly accurate.”—*Professor Marshall.*

**Cannan on Value.**

"Ever since Jevons explained the declining utility of successive increments of food it has been impossible for the English economist to rely much on the fact that a loaf is a loaf whether it is crumbled in the hands of a surfeited Dives or devoured by a starving Lazarus. The same loaf is of less use to Dives, and the Modern economist must recognise the fact."—*Professor Cannan*.

**Rent.**

"Is it leful to give to Cesar rente?" (Wycliffe's translation of Matt. xxii. 17, about the year 1380.)

"Is it lawful to give tribute unto Cæsar or not?" (Authorised Version, 1611.)

*Rente : revenu annuel* (*Dictionnaire de l'Academie française*).

*Rent*.—Tenants' periodical payment to owner or landlord for the use of land or house or room : payment for hire of machinery, etc. (*Oxford Dictionary*).

Sir William Petty, in 1662, described rent as *a surplus of produce* over and above what was necessary to provide seed and to support the cultivator.

Cantillon, a French writer, who belongs to the time of the Physiocrats, though not generally reckoned among them, said that land produces "three rents." One-third of the produce of the land, he thought, went to the farmer, one-third to the labourers, and one-third to the landlord. (This last third is what is more usually called "rent.")

Rent is a creation of value, not of wealth.—*Ricardo*.

The comparative scarcity of the most fertile lands is the cause of rent.—*Ricardo*.

Rent is that portion of the produce of the earth, which is paid for the use of the original and indestructible powers of the soil.—*Ricardo*.

The essential characteristic that distinguishes rent from other forms of income, is that it is the outcome of

differences which are not due to owner or user, and are therefore independent of the payment made to them.—*Prof. H. Clay.*

Rent is the excess of price received over the *actual* expense of the several producers.—*Prof. Hadley.*

Economic rent is the surplus which remains to the producer, for which, if he is a tenant, he pays a compensation to the landlord in the form of *contract* rent.—*Sir H. Penson.*

We may take it then that rent is the term properly applied to periodical payments made by the “tenants” of immovable property.—*Professor Cannan.*

The rent is the value, or price, of the flow of utilities which it (land) yields during a given period of time, such as a month or a year. Both the value and the rent of land come under the general law of value.—*Professor Carver.*

### Rent and Productivity.

“The productivity of land for which rent is paid is not affected by the payment of rent. . . . If wages are not paid, on the whole people will not work ; if interest is not paid, on the whole people will not save less ; if rent is not paid, the quantity and quality of land will not be affected. Wages have to be paid by society to maintain the supply of labour ; interest has to be paid to maintain the supply of capital ; the supply of land is not affected by the payment of rent.”—*Professor H. Clay.*

(See Fig. 1, page 97).

#### PRODUCER'S SURPLUS (RENT) DIAGRAM

If we imagine Labour-and-Capital being put into a farm, or a business, in £100 “doses,” £1,200 in all, then the tall rectangles represent the “returns,” either in crops or in *gross* proceeds.

The return to the eleventh £100 is just worth while.

The returns to the second, third . . . tenth doses are more than worth while. They produce a surplus: “economic rent.”

The returns to the first and the twelfth £100 are not worth while. They result in a loss, *i.e.* the dotted area, which is below the “worth while” line.

The dotted area of the first £100 is not worth while in itself, but is a step to the more profitable doses.

The dotted area of the twelfth £100 might be called "negative rent."

The returns increase from 1 to 3, remain constant from 4 to 6, and diminish from 7 to 12.

No. 12 will be abandoned.

### National Income.

Estimates selected from a list of 28 given in Sir Josiah Stamp's *British Incomes and Property* (1916). Roughly, column (c) represents the income of "property," and column (e) the income of "labour." Different years cannot be compared with any exactness, since the "exemption limit" (marking off those whose incomes are below from those whose incomes are above the amount fixed) varies: £100, £150, £160. No sound argument could be based on such figures. They give some indication of the rate of increase of the National Income, but they do not show whether the share that goes to property is increasing or not. Most inquirers, and most economists, are definitely of opinion that it is increasing, but that cannot be shown from these figures. Note, for example, that the £150 exemption limit for 1840 excluded most artisans' wages, but the same figure for 1924 includes many, owing to changes in the value of money and to income-tax "allowances."

(a)	(b)	(c)	(d)	(e)	(cd)
	Total.	Above Income Tax Limit. "Property."	Exempt.	Below Income Tax Limit. "Labour."	Ratio.
	£Millions.	£Millions.		£Millions	(c) : (e)
1840 (Giffen) .	515	250	£150	265	100 : 106
1867 (Levi) .	961	423	£100	538	100 : 127
1885 (Marshall) .	1750	525	£150	725	100 : 138
1888 (Mallock) .	1300	660	£150	640	100 : 97
1904 (L. C. Money)	1710	830	£160	880	100 : 106
1907 (Bowley) .	1945	880	£160	1065	100 : 121
1924 (for 1913) (on basis of N.Y. Trust Figures Banker's)* .	2132	1167	£150	965	100 : 83

\* £M.2132 in 1924 being taken as equivalent to £M.1978 in 1913. Population of Great Britain: 1913, 41 millions; 1924, 43 millions.

**Incomes per Head.**

The following calculation was made in 1924 and issued by the Bankers' Trust Co. of New York. The figures are given in pre-war gold dollars: that is the dollar at the rate of 4.86 (4.86) to £1. The amounts may be changed into pounds sterling by multiplying them by 0.244 ( $4.86 \div 20 = 0.243$ ). Thus, the average income for Great Britain in 1912, given as 212.76 dollars, is just under £46 at the 1924 price of the dollar (4.30 in June, 1924). At pre-war dollar-sterling values it would be just under £52.

	1923. Dollars.	Pre-War. Dollars.
British Empire (including India) . . . . .	56.07 . . . . .	56.90
British Empire (excluding India) . . . . .	151 . . . . .	161.54
Canada . . . . .	266.67 . . . . .	250
Great Britain . . . . .	212.76 . . . . .	236 95
France . . . . .	179.49 . . . . .	182.50
Italy . . . . .	85 . . . . .	108.33
Germany . . . . .	114.75 . . . . .	154.41
United States . . . . .	281.82 . . . . .	351 02

The same table re-arranged and in English money.

	1923.	Pre-War.
United States . . . . .	£68.76 . . . . .	£85.65
Canada . . . . .	£65.07 . . . . .	£61
Great Britain . . . . .	£51.91 . . . . .	£57.82
France . . . . .	£43.78 . . . . .	£44.53
British Empire (excluding India) . . . . .	£36.84 . . . . .	£39.41
Germany . . . . .	£28 . . . . .	£37.68
Italy . . . . .	£20.74 . . . . .	£26.43
British Empire (including India) . . . . .	£13.68 . . . . .	£13.88

Another estimate was made early in 1924 by Sir Leo Chiozza Money. He arrived at the following figures :

*National Income (£Millions)*

1908 . . . . .	1844
1913 . . . . .	2100
1923 . . . . .	1800

This last figure is expressed in the purchasing values of the year 1913-1914. It represents a loss of about

15 per cent. On the same basis of 1913-1914 values he gets :

1923.	Income per head	.	.	.	£37½
1923.	Income per family	.	.	.	£187½

His chief inference is that "our national income is not a great fund of wealth, but a poor stream."

### ESTIMATES OF THE NATIONAL WEALTH

1800.	(Beeke)	.	.	.	£1,750,000,000
1822.	(Lowe)	.	.	.	£2,500,000,000
1845.	(Giffen)	.	.	.	£4,000,000,000
1885.	(Giffen)	.	.	.	£10,000,000,000
1902.	(Money)	.	.	.	£11,413,000,000
1915.	(Stamp)	.	.	.	£14,300,000,000
1918.	(Stamp)	.	.	.	£15,300,000,000

In round numbers, then, the National Wealth for 1924 is probably well over £20,000,000,000. That does not mean that the National Wealth in 1924 was double what it was in 1885 for which Giffen estimated half that amount (£10,000 Millions). For prices in 1924 stood much higher than in 1885, *i.e.* £1 was worth less in 1924 than in 1885. Since during that period the purchasing value of the pound fell over 40 per cent., and population increased by about 35 per cent., the increase of wealth per head was not very great !

### Distribution of Wealth : Classifications.

I. Landlords : Rent.

Capitalists : Profit or interest.

Workers : Wages.

(18th -19th century economists.)

"The industrial community may be considered as divided into land-owners, capitalists, and productive labourers."—*J. S. Mill* (published 1848).

## II. "Valuation of goods :

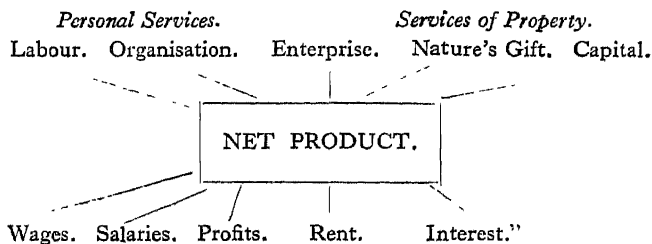
- (a) Consumer's goods.
- (b) Producer's goods.
  - (i) Land.
  - (ii) Capital.
  - (iii) Labourers (under slavery).

## Valuation of services :

- (a) Of land (yielding rent).
- (b) Of capital (yielding interest).
- (c) Of labourers (earning wages)."

*Professor Carver* (published 1920).

## III. "The correspondence between service and income is shown in the following diagram :



*Sir H. Penson* (published 1913).

## IV. "We may say that, as a general rule, the produce of work is divided into four shares, which may thus be shown :

Produce = Wages + Rent + Interest + Taxes. . . .

We may say that

Profit = Wages of Superintendence + interest + recompense for risk."

*W. Stanley Jevons* (published 1878).

## V. "(a) Earnings of Labour.

- (b) Profits of Capital and Business Power.
- (c) Rent of land."

*Professor Marshall* (published 1890).

**Incomes from Labour and from Property.**

"A. A person may obtain income :

- (1) By producing commodities for his own benefit.
- (2) By working in one way or another along with people he employs, that is to say, with people who have sold their work to him for payment agreed upon before the work is done.
- (3) By working for an employer, that is, by selling his work to some one for a payment agreed on before the work is done.

B. A person may derive income from his property :

- (1) By using it himself, either alone or in conjunction with others.
- (2) By keeping in his possession property of a certain kind till it is ready for use or wanted.
- (3) By selling the use of his property to others for fixed periodical payments."—*Prof. Cannan*, 1888.

**Table of the Distribution of the Net Produce, National Dividend, or National Income.**

A. To Labour.

B. To Property.

A. To Labour.

- (1) Men working on their own account, each using his own property (*e.g.* peasant farmers).
- (2) Men working on their own account, each using hired property (*e.g.* taxi-drivers who do not own their own taxi-cabs).
- (3) Men working on commission, which is reckoned as a percentage of their turn-over (*e.g.* some commercial travellers).
- (4) Men working for a wage, measured by output (weavers on piece wages).



- (5) Men working for fees, which are more or less fixed by an authoritative body (*e.g.* solicitors).
- (6) Men working for a fixed wage, measured by the hour, day or year (*e.g.* most wage-earners, many salaried people, such as teachers).

**B. To Property.**

*1st Group* : " Unearned " incomes, not connected with any personal services.

- (1) Mining royalties.
- (2) Ground rents in towns.
- (3) Pure rents of all land and fixed property.
- (4) Monopoly profits.

*2nd Group.*

- (5) Interest.

*3rd Group.* " Earned " incomes, connected with personal services.

- (6) Patent fees and authors' copyright fees.
- (7) Earnings from property used by the owners.
- (8) Earnings from the use of hired property.

(This list, (B), is an adaptation of one made by Mr. R. H. Tawney.)

**Distribution : Property and Income.**

"Property has a social purpose, a purpose that the democrat may approve ; it is the traditional basis of personal independence. . . . But it fulfills this purpose only for a small minority who possess property, for the 8 per cent., say, who possess as much as £1000. . . .

"Is the unequal distribution of property, then, inevitable ? Inequality of property is, in part, merely a reflection of inequality of incomes. People with large incomes can save and so accumulate property. This inequality of income, in turn, is in part a result of natural

inequality, but much more of the inequality of opportunity, which the existing economic inequality involves, and the results of both natural and circumstantial inequality are magnified by the large scale of modern economic enterprise.

"The inequality of property is, however, much greater than the inequality of income. Assuming, to be on the safe side, that all the persons of twenty years of age and upwards who died in 1920 and were exempt from Estate Duty, left £100 each, the distribution of property, according to the sample given by the Estate Duty statistics, would be as follows :

	Per cent.	Per cent.	Per cent.
Persons . . . . .	76	22	1
Aggregate Property (as Income)	7	30	63

This may be compared with Professor Bowley's estimate of the distribution of income in the year 1913, the latest year for which reliable income estimates can be framed :

	Per cent.	Per cent.	Per cent.
Persons . . . . .	73	21	5½
Aggregate Income . . . . .	35½	17	47½

"To put the difference in a more summary way, about 6 per cent. of the persons own half the income of the country, but three-quarters of the property. And the inequality of property, while it is greater than the inequality of income, has even less economic justification.

"The explanation is to be found in the right of inheritance. Personal qualities, exceptional ability or industry, do not survive their possessor ; accumulations of wealth can be transmitted to descendants. Thus the effects of inequality are cumulative ; the advantage gained by one generation of a family provides a start in the race for wealth in the next generation. And the change in the form of property that we have noted enhances this cumulative effect. . . .

"Stock Exchange securities were the largest element in all estates of more than £5,000 ; house property and business premises in estates between £100 net and £5,000, and cash in the small estates of less than £500 gross value.

"The return brings out two important facts, the inequality of distribution of property, and the preponderance of Stock Exchange securities among the different forms of property. This inequality enhances, and in part accounts for, the inequality of incomes which is the chief source of social unrest and the chief cause of waste in the modern economic system.

"The degree of inequality is not brought out if we consider only the estates that paid duty. The number of deaths in 1920 was 600,000, so that five-sixths of the population may be presumed to have less than £100 property each, or if we ignore persons under twenty, three-quarters."—*Professor Henry Clay*.

### **Trade Unions : Definitions.**

A Trade Union . . . is a continuous association of wage-earners for the purpose of maintaining or improving the conditions of their working lives.—*Webb : History of Trade Unionism*.

A trades-union is a society of men belonging to any one kind of trade, who agree to act together as they are directed by their elected council, and who subscribe money to pay the expenses.—*W. Stanley Jevons* (1878).

An organised body of workmen in any trade, manufacture, or industrial occupation associated together for the promotion of their common interests.—*Encyclopædic Dictionary*.

*Trade Union* is nineteenth century *tradesman* still being used locally for artisan. A "tradesman," in Scotland, implies one who works with his hands at any handicraft trade, whereas in England it means a shop-keeper (Sinclair, 1782).—*Weekley's Etymological Dictionary*, 1921.

**Trade Unionism and Labour : Dates.**

1767. Repeal of Woollen Cloth Weavers Act (passed 1767).
- 1799 } Combination Acts forbidding, under penalties,  
1800 } all combinations aiming at a rise of wages.
1814. Glasgow weavers imprisoned for striking.
1825. Trade Unions Act, permitting Collective Bargaining, and thus repealing the Combination Acts.
1829. "The Grand General Union of the United Kingdom" begun in Lancashire.  
"The National Association for the Protection of Labour." A short-lived federation of 150 Unions.
1832. "The Trades Union" (of all trades).
1833. The employers first use the device of "The Document." This was a declaration, to be signed by each worker engaged, that he was not or would not become a member of a Trade Union. "The Document" was used on many subsequent occasions, notably in 1914.
1834. "The Grand National Consolidated Union of Great Britain and Ireland." Nearly a million members, of all trades, were enrolled. In connection with these general unions of all trades, there appeared the idea of a General Strike, and the "Syndicalist" idea of "national companies for every trade."—(*Robert Owen*).
1834. Six labourers of Tolpuddle, Dorchester, sentenced to seven years' imprisonment for combining to demand an increase from 7 to 10 shillings a week. They were transported to Botany Bay.
- By the end of 1834, the Grand National Union was practically dead.

- 1837. Chartist movement.
- 1844. The " Rochdale Pioneers."  
Beginning of Co-operative Stores.
- 1850-1851. Formation of the Amalgamated Society  
of Engineers, from seven smaller societies ;  
a " New Model " of a trade union. It was  
registered as a Friendly Society.
- 1862. Lock-out of engineers.
- 1866. The Sheffield outrages, organised by a union  
official named Broadhead.
- 1867. " Master and Servant " Act, abolishing im-  
prisonment for refusal to work.
- 1867. Royal Commission of inquiry into Trade  
Unions.
- 1867. Judicial decision that a Trade Union could  
not protect its funds by registering as a  
Friendly Society (*Hornby v. Close*).
- 1868. First Trade Union Congress.
- 1869. Trade Union Funds Protection Act, reversing  
the decision of 1867.
- 1871. Trade Union Act.
- 1871. Criminal Law Amendment Act, with penalties  
for picketing, intimidation, and " watching  
and besetting."
- 1871. Unions decide to enter politics.
- 1872. First (permanent) women's unions.
- 1874. Two " Liberal-Labour " members elected.
- 1875. " Peaceful picketing " legalised.
- 1880. First English Socialist Societies.
- 1889. London Dock Strike.
- 1892. Three Labour members of Parliament elected  
independently of the ordinary political  
parties.
- 1893. Formation of the Independent Labour Party,  
a definitely Socialist body.
- 1893. Coal Strike. Demand for a " living wage."
- 1900. Labour Representation Committee formed to

- consider definitely "Labour" representation in Parliament.
1900. Taff Vale Strike. After the strike, the Taff Vale Railway Company sued the Amalgamated Society of Railway Servants. The Court awarded the Company £23,000. The total expenses of the Union were £42,000. The case left all Trade Union Funds insecure.
1906. Trade Disputes Act, reversing the Taff Vale judgment, and securing Trade Union funds against similar actions.
1906. Trade Union membership 2 millions.
1906. The Guild Socialist Movement. Mr. Penty's *Restoration of the Gild System* was issued in 1906. *The New Age* supported the Gild idea in and after 1911. Mr. G. D. H. Cole and Mr. W. Mellor developed the idea in detail in many writings.
- The National Guilds League started a monthly paper, *The Guildsman*, in 1916.
1908. The "Osborne" judgment, restraining Trade Unions from using their funds to support Parliamentary candidates.
1908. Miners' Eight Hours Bill.
1909. Labour Exchanges established.  
Trade Boards established.
1910. Syndicalist movement in England.
1911. Payment of Members Act.  
National Insurance Act.
1912. Coal Strike.
1913. Trade Union Act, reversing the "Osborne" judgment so as to permit Trade Unions to pay for the election and support of Labour members of Parliament on condition :
- (1) that a ballot is taken, showing a majority for such action ;

- (2) that the political fund is kept separate and is optional ;
- (3) that membership is not refused for non-payment to the political fund.
- 1914. Unaccepted offer of Welsh coal miners to refrain from demanding higher wages if the price of coal were not raised.
- 1914. Triple Alliance of Miners, Railwaymen, and Transport Workers.
- 1914. Trade Union Membership 4 millions.
- 1915. Relaxation of Trade Union practices for the period of the War.
- 1917. “Whitley” Councils established.
- 1918. London Police Strike.
- 1919. Railway Strike.
- 1919. Trade Union Membership 6,500,000.
- 1920. Trade Union Membership, 8,493,000 (highest on record).
- 1921. Coal Dispute (3 months). The Triple Alliance of 1914 failed to become effective in this dispute.
- 1921. Fall of Wages bill during the years 1921 and 1922 over 1,000 million pounds (Ministry of Labour figures).
- 1922. Engineering Lock-out (3 months).
- 1923. Fall of Trade Union Membership from 8½ millions (1920) to 5½ millions.

### “Labour” in Parliament.

“LIBERAL-LABOUR” PERIOD.			
Year.			Members.
1874	.	.	2
1880	.	.	3
1885	.	.	11
1886	.	.	10
1892	.	.	15
1895	.	.	12
1900	.	.	11

(Two of these eleven were independent Labour members.)

“LABOUR” PERIOD.			
Year.			Members.
1900.	.	.	(9)+ 2
1906.	.	.	(21)+31
1910.	.	.	(7)+39
1910.	.	.	(6)+42
1918.	.	.	59
1922.	.	.	142
1923.	.	.	192
1924.	.	.	152

(The figures in brackets are “Liberal-Labour” members.)

### The Postulates of Political Economy.

“In my judgment, there are three defects in the mode in which Political Economy has been treated in England, which have prevented people from seeing what it really is, and from prizing it at its proper value.

“First.—It has often been put forward, not as a theory of the principal causes affecting wealth in *certain* societies, but as a theory of the principal, sometimes even of all, the causes affecting wealth in *every* society. And this has occasioned many and strong doubts about it.

“Secondly.—I think in consequence of this defect of conception Economists have been far more abstract, and in consequence much more dry, than they need have been. If they had distinctly set before themselves that they were dealing only with the causes of wealth in a single set of societies, they might have effectively pointed their doctrines with facts from those societies. But, so long as the vision of universal theory vaguely floated before them, they shrank from particular illustrations. Real societies are plainly so many and so unlike, that the same thing exists in other societies.

“Thirdly.—It is also in consequence, as I imagine, of this defective conception of their science, that English Economists have not been as fertile as they should have been in verifying it. They have been too content to remain in the ‘abstract,’ and to shrink from concrete notions, because they could not but feel that many of the most obvious phenomena of many nations did not look much like their abstractions. . . .

“The first assumption which I shall take is that which is perhaps oftener made in our economic reasonings than any other, namely, that labour (masculine labour, I mean) and capital circulate readily within the limits of a nation from employment to employment, leaving that in which the remuneration is smaller and going to that in which it is greater. . . .



"We see then that there are at least four conditions to be satisfied before this axiom of our English Political Economy is true within a nation. Before labour can move easily and as it pleases from employment to employment there must be such employments for it to move between; there must be an effectual government capable of maintaining peace and order during the transition, and not requiring itself to be supported by fixity of station in society as so many governments have been; the nation must be capable of maintaining its independent existence against other nations without a military system dependent on localised and immovable persons; and there must be no competing system of involuntary labour limiting the number of employments or moving between them more perfectly than contemporary free labour. These are not indeed all the conditions needful for the truth of the axiom, but the others can be explained better when some other matters have first been discussed."—*Walter Bagehot* (b. 1826, d. 1877), *The Postulates of Political Economy* (published after his death).

### **The Earlier Economists on Trade Unions.**

"It is impossible for the employers of labour artificially to reduce the rate of wages."—*McCulloch* (1851).

"Strikes could not increase the wage-fund, therefore they could not enhance wages."—*Walker* (1876).

"The margin of the possible improvements of the (workers') lot is confined within narrow barriers which cannot be passed, and the problem of their elevation is hopeless. As a body they will not rise at all. . . . The remuneration of labour as such, skilled or unskilled, can never rise much above its present level."—*Cairnes* (1874).

### **Modern Economists and Trade Unions.**

"It is safe to say that in concrete life it happens very rarely, probably never, that a specific rise in wages, secured by strike or trade-union pressure or simple

agreement, can be shown to bring any off-setting loss in the wages of those not directly concerned.”—*Taussig*.

“In the matter of Trade Unionism, as well as in that of the predeterminate wage-fund, the untutored mind of the workman had gone more straight to the point than economic intelligence misled by a bad method.”—*Edgeworth*.

“Unions have been at once a chief product and a chief cause of this constant elevation of the standard of life.”—*Marshall*.

### **Assumptions of Trade Unionism.**

“The Trade Unionists, in their narrower sphere of the conditions of employment, are influenced by three divergent conceptions of the principle on which wages, hours, and other terms of the labour contract ought to be determined. These three assumptions, which we distinguish as the Doctrine of Vested Interests, the Doctrine of Supply and Demand, and the Doctrine of a Living Wage, give us the clue to the conflicting policies of the Trade Union world.

“By the Doctrine of Vested Interests we mean the assumption that the wages and other conditions of employment hitherto enjoyed by any section of workmen ought under no circumstances to be interfered with for the worse. . . .

“At the beginning of this [*i.e.* the nineteenth] century . . . working men were told, by friends and foes alike, that they could no longer be regarded as citizens entitled to legal protection of their established expectations; that labour was a commodity like any other; and that their real position was that of sellers in a market, entitled to do the best they could for themselves within the limits of the law of the land, but to no better terms than they could, by the ordinary arts of bargaining, extract from those with whom they dealt. . . . Under the influence of [this] view, the Trade Unionists of the middle of the [nineteenth]

century boldly asserted a claim in times of good trade, to the highest possible rates that they could exact from employers eager to fulfil immensely profitable orders. . . .

"When the members of the Miners' Federation were menaced, in the trade contraction of 1892-3, with a serious reduction of wages, they definitely repudiated the Doctrine of Supply and Demand, and maintained their right, whatever the state of trade, to a minimum sufficient to secure their efficiency as producers and citizens."—*S. and B. Webb : Industrial Democracy.*

### **Professor Marshall on Trade Unions.**

"The power of Unions to raise general wages by direct means is never great; it is never sufficient to contend successfully with the general economic forces of the age, when their drift is against a rise of ages. But yet it is sufficient materially to benefit the worker, when it is so directed as to co-operate with and to strengthen those general agencies, which are tending to improve his position morally and economically. And it will be so directed if the following conditions are satisfied. Firstly, Unions must aim at making business easy and certain: this is already done by formal and informal Boards of Conciliation in some trades, especially such as produce largely for foreign markets. Secondly, they must aim at raising the Standard of Life among the workers of the present and the coming generation by fostering habits of sobriety and honesty, independence and self-respect; this is done in different degrees by all Unions; and whatever influence they exert in this direction is cumulative. Thirdly, they must aid as many as possible of the rising generation to acquire industrial skill, and to join the higher paid ranks of labour; this calls for some self-sacrifice, and is inconsistent with any attempt to raise very high the wages in skilled trades by making the entrance to them artificially difficult. Fourthly, they must strive to develop the great stores of business

power and inventive resource that lie latent among the working classes, so that, production being economical and efficient, the National Dividend may be large ; and that, business being cheap, and the share going as Earnings of Management being relatively small, that which remains for wages may be high. The training which Unionists get from the management of Union affairs, though highly beneficial to them as men and as citizens, is yet not exactly what is wanted for this end. But Unions might do much towards it, by undertaking particular contracts and even general business on their own accounts ; and by aiding and promoting all forms of co-operative enterprise, and especially such as open the greatest number of opportunities to men of natural business ability to find free scope for their constructive and originating faculties. Fifthly, they must be always specially careful to avoid action by which one class of workers inflict a direct injury on others. Contests between Unions contending for the same field of employment—as for instance between Unions of shipwrights and carpenters, or plumbers and fitters—attract their full meed of attention ; but more importance really attaches to the injuries which one trade inflicts on others by stinting the output of the raw material which they have to use, or by throwing them out of work through a strike in which they have no concern.”—*Marshall's Economics of Industry*.

### Industrial v. Craft Unions.

“The desire on the part of the workers for the ‘right to control’ their industry, their pursuit of the ‘achievement of power,’ is broken in the practice of a narrow craft unionism. A craft union protects only its own craft, a craft that mechanical development may make obsolete in a decade. An industrial union protects the complete labour of a complete industry. Whatever mechanical changes may take place in the operations of

the railway system, it is the railway system all the time, and its operators are railway workers who, always organised in a national union of railway workers, are ever ready to protect their skill in transport, and to negotiate any phase of their adaptable industrial conditions.”—*A. Bellamy, J.P., President of the National Union of Railwaymen : in The Labour Year Book, 1916.*

### Expenditure of 100 Principal Trade Unions, 1898–1912.

Board of Trade Abstract of Labour Statistics, 1915 (Cd. 7733).

Nature of Expenditure.	Average yearly total.			Average amount per member per year.		
	£	s.	d.	£	s.	d.
Unemployed Benefits . . .	518,971	2	8	7	6	$\frac{3}{4}$
Dispute Benefit (Strikes and Lock-outs) . . .	308,404	4	0	4	2	$\frac{1}{2}$
Sick and Accident Benefits . . .	382,246	17	4	5	6	$\frac{1}{2}$
Superannuation Benefit . . .	288,491	16	0	3	7	$\frac{1}{2}$
Funeral Benefit . . .	99,665	13	4	1	5	$\frac{1}{2}$
Other Benefits and Grants * . .	118,107	6	8	1	8	$\frac{1}{2}$
Working and Other Expenses . .	460,466	2	8	6	8	$\frac{1}{2}$
Average Yearly Totals . . .	2,177,312	2	8	1	10	$10\frac{1}{4}$

### Trade Union Arguments.

“The workman of to-day feels the truth of the words written by Adam Smith in 1776: ‘In all disputes the masters can hold out much longer. Many workmen could not subsist for a week, few could subsist a month, and scarcely any a year without employment. In the long run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate’ (*Wealth of Nations*, Chap. VIII.). But, with a Trade Union behind him, the workman is able to fall

\* Some of these Grants are made to other Unions engaged in industrial disputes.

back, not merely upon his own insignificant savings, but upon the accumulated funds of thousands of his fellows.

"Mr. T. S. Cree, the most acute of recent critics of Trade-Unionism, will not accept this reasoning. ' . . . men of business know that most employers work largely with borrowed capital, and that their own capital is often a small part of the borrowed capital, and the stoppage of work through a strike, or a number of machines standing idle, often means not less profit, but an absolute loss, and if long continued, total ruin.' " (*Criticism of the Theory of Trade Unions : T. S. Cree.*)

"But the argument of the economist is that the employer has the advantage over the isolated worker. To point out that if there is 'a stoppage of work through a strike,' that is, if the workmen are no longer acting separately, but have combined, the advantage disappears, confirms instead of refuting the reasoning.

"There are other disadvantages pressing upon the workman who stands alone. Negotiation is a business in itself, but it is not the business of a manual worker. His function is to labour. It is, however, the special work of the employer. . . . Negotiations over wages between the employer and the labourer thus resolve themselves into a match between a professional and an amateur. Again the chances are against the workman, and again he saves himself by his Trade Union. The officers of his Union do for him what he cannot do, and ought not to spend his time in doing, for himself. . . .

"It is argued that . . . with or without them (*i.e.* Trade Unions), the wages in a trade are 'in the long run' determined on a certain level by the forces of supply and demand. No combinations of employers can for long force them below it, and no Union can keep them above it. Unions, therefore, it is claimed, are unnecessary for defence and useless for aggression. . . .

"The argument is summed up by Mr. T. S. Cree :

‘ While the terms of a particular bargain are of importance to the individual workman and employer concerned, they are not of much importance to the workmen and employers as a whole, as there is always a compensating action going on which is bringing back wages to a true economical point.’ This is the main criticism of Trade Unionism. It must be said at once that it contains a considerable element of truth. . . .

“ The Trade Unionist, however, has his reply. Even if wages will eventually reach ‘ a true economical point,’ this is only to take place ‘ in the long run.’ But how long is the run ? If, for instance, wages are forced below the true economical point, what length of time will elapse before sufficient men have moved into other trades to raise them back again ?

“ The short run of economic theory may cut a considerable length out of his working life. If he always bears the brunt of the fluctuations of wages while the masters always reap the advantage, the average of his wages will clearly be lowered. Why should he tolerate such a position ? Trade Unions enable him to resist this downward pressure, and perhaps to substitute an upward pressure in his own favour. . . .

“ The future historian . . . may see that the real importance (*i.e.* of Trade Unions) lay in their political effect, and not in the merely economic questions of whether they raised or lowered wages, or whether they helped or hindered trade. . . . It is as a training-ground for self-government that Trade Unionism may most profoundly modify the course of our history.”—*H. B. Lees Smith, M.A.* (1908).

### **Trade Union Services.**

“ The greatest service, perhaps, rendered by Trade Unions has been to give the workers a minimum or reserve price for their labour. Below this minimum there is no supply. In this way a certain standard of

living is maintained, and the standard of efficiency is raised."—*Sir Henry Penson.*

### **The Higglings of the Market.**

(Summarised from S. and B. Webb's *Industrial Democracy.*)

A. The individual worker is at a disadvantage, in bargaining, in that he has

- I. No resources, no alternative, and cannot wait ;
- II. No skill in bargaining ;
- III. No knowledge of market conditions ;
- IV. Imperfect knowledge of the conditions of the work and of the supply of labour offering.

B. The manufacturer is at a disadvantage, as against the wholesale dealer, in that he has

- I. Less alternative, less power to wait ;
- II. Less skill in bargaining ;
- III. Less knowledge of market conditions ; *and also*
- V. The competition of " sweating " firms to meet.

C. The wholesale trader is at a disadvantage as against the retail trader, in two particulars :

- III. He has less knowledge of the demand in the immediate market ;
- VI. The retailer can " push " certain selected goods.

D. The retailer is at a disadvantage in relation to the customer,

- I. Because he has no alternative : he must sell his goods ;
- VII. Because he can usually only sell by cheapness. Quality is relatively ineffective.

E. The customer is at a disadvantage :

- II, III, IV. Because he is without exact knowledge.

Each group seeks to protect itself by any available legal device.



**Professor Gide on Trade Unionism and Syndicalism.**

"The revolutionaries attach little importance to political action. Instead of looking for emancipation to law and social reform, they look for it solely from the working class as organised into unions. This is what is called 'direct action.' It is purely economic. This party is nowadays known as the Syndicalist party—the syndicate \* being, by definition, composed only of wage-earners—and has for its organ the *Confédération Générale du Travail*, the C.G.T. so often spoken of, which is simply a federation of all the unions. Its principal method of action consists in incessant strikes ; as a preparation for the general strike which is to be the working-man's revolution. This movement has found some enthusiastic adherents among the intellectual classes, who have drawn from it a new moral and an ideal philosophy of their own.

"The Reformists, on the contrary, without disavowing the principle of class conflict or renouncing strikes, do not despise social reforms, particularly when these take the form of laws and not philanthropic institutions. They do not believe that the capitalist regime is nearing its end, nor, even supposing it were, that the working class is ready to take over the economic government of society. But they try to prepare the way for it to do so by various forms of association, particularly the trade union, as also by the co-operative societies for consumption, of which it remains for us to speak. Long disdained by socialists, these are beginning now to find a certain amount of favour. . . .

"All trade unions are not, however, revolutionary. Many are reformist, or trade unions in the English sense of the word ; that is to say, they aim rather at practical improvements, their methods being :

"(1) To make employers accept the union as the normal intermediary in all negotiations between them

\* French "*syndicat*," trade union or mercantile trust.

and their workers, and to make them, if possible, agree to the principle of collective bargaining.

“(2) To fix a minimum wage, called the Standard Rate, below which employers cannot go without the risk of a strike, and below which workers are forbidden to accept work.

“(3) To start insurance funds against unemployment, and labour bureaux—the latter intended not only to attract workers to the unions, but to save them from having to accept whatever employment turns up at a starvation wage.

“(4) To inspire members with a feeling of loyalty towards the unions, a loyalty enforced, if need be, by the boycotting of refractory members or renegades.

“(5) To develop the technical and social training of the workers (by lectures for apprentices, libraries, newspapers, etc.), and to limit the number of apprentices.

“(6) To issue labels to be attached to products made by union men, and to recommend houses which pay the standard wage.

“On the whole, in spite of their too often tyrannical way of understanding working-class solidarity ; in spite of their arrogance towards all that is not working class ; in spite of their too frequent abuse of the strike and even of sabotage, trade unions have rendered the workers undoubted services. It is to be hoped that they will be accepted by all employers without reservation, and that they will gradually number among their members the whole of the working population. Only so will they cease to be an instrument of social disturbance and become a preponderant factor in economic evolution.”—*Gide : Political Economy*.

### **The Aim of Syndicalism.**

“But it must be made clear that neither industrial organisation, nor Parliamentary action, nor both combined, can achieve the emancipation of the workers unless

such emancipation is definitely aimed at. Unionism that aims only at securing peace between employers and men is not only of no value in the fight for freedom, but is actually a serious hindrance and a menace to the interests of the workers. Political and industrial action direct must at all times be inspired by revolutionary principles. That is, the aim must ever be to change from Capitalism to Socialism as speedily as possible. Anything less than this means continued domination by the capitalist class.

"Let me quote from a previous issue of the *Industrial Syndicalist*, where it is stated :—

*"That it will be avowedly and clearly revolutionary in aim and method."*

"Revolutionary in aim, because it will be out for the abolition of the wages system and for securing to the workers the full fruits of their labour, thereby seeking to change the system of Society from Capitalist to Socialist.

"Revolutionary in method, because it will refuse to enter into any long agreements with the masters, whether with legal or State backing, or merely voluntarily ; and because it will seize every chance of fighting for the general betterment—gaining ground and never losing any."—*Tom Mann : The Industrial Syndicalist*, No. 3, Sept., 1910.

### **Syndicalism and Socialism.**

"Though there are some points of resemblance between Trade Unionism and Syndicalism, there are fundamental differences in aim and in method. The points of resemblance are that each believes in the organisation of the workers in their trades ; each believes in the close federation of the trade unions ; each believes in the use of the strike to get ameliorative reforms ; each believes in trusting to the power of industrial organisation and not to the State to get better wages.

"But, on the other hand, there are fundamental differ-

ences between Trade Unionism and Syndicalism. Trade unionism does not repudiate the State ; it believes in using Parliament for ameliorating industrial conditions ; it sends its representatives to Parliament to promote labour interests ; it looks for its economic emancipation by the use of political power ; it does not believe in the omnipotent power of the strike ; on the contrary it seeks whenever possible to avoid the strike and tries to settle disputes by voluntary negotiation ; it believes in preparing for a strike by amassing reserve funds, whereas Syndicalism teaches that the strike should be spontaneous, unpremeditated, and that the workers should feed during its continuance on their revolutionary enthusiasm ; trade unionism concerns itself with questions affecting the workers, but not directly connected with their work ; it encourages workmen to become efficient, and associates with the employers in various schemes for improving the technical skill of the men. In all these respects trade unionism differs from Syndicalism. One other point of similarity between trade unionism and Syndicalism which may suggest itself from the experience of the great strikes of the railway men, the miners, and the transport workers in 1911-12 is that in these strikes the trade unions tried to ' hold up ' the community in order to force Parliament to interfere on their behalf. In the case of the miners there was no desire on the part of the leaders to obtain the help of Parliament, in the other two cases there was : but while it may be true that in all these strikes the men relied for success mainly on the inconvenience they could cause the public, they had not the Syndicalist notion in their heads of forcing the owners to surrender their concerns to the workmen. Though the irritation strike may be a weapon both of trade unionism and Syndicalism, that does not make the movements identical. It is the aim which tests the similarity, not the method, as the same methods may be used for very different objects. A remarkable illustration of the

vital difference between the two movements was furnished by the miners, who immediately after the strike of 1912 set to work to draft a Parliamentary Bill and to start a national campaign for the State ownership of the mines, proposing not to expropriate the existing owners, but to give them full compensation for their property.”—*Philip Snowden : Socialism and Syndicalism.*

### **The Control of Capital by Legislative Action.**

“There is no moment at which the capitalist is not relying on the vast system of co-operating forces, on whose assistance he can confidently calculate, and which his every need and wish have at their immediate command. . . . Social co-operation is the ground on which alone this far-reaching competition can rest. In co-operation it discovers its fulcrum, its base, its weapons, its range, its mechanism, its potentialities. Society at large gives the individual the vantage from which he can afford to compete, and also the enormous area of possibilities over which his ingenuity can make play. . . . To protect him in his work, Society has framed a large body of law ; and it keeps, at vast expense, a judicial system that shall preserve for him his rights to free activity in his own interest, as well as a host of police who will be at his service to ward off perils and to preserve his goods in safety.

“There is not an act of his, then, which Society has not accompanied, shared, authorised, enriched, enforced. There is no possible disentangling of his own private act from the social web in which it is immeshed. . . .

“If he cannot compete except through the co-operation of the community, then this co-operation is prior, in the moral sense, to his competition. The Co-operation can rightly require that the Competition, which it alone makes possible, should serve its interests. It can lawfully forbid any competitive action that results in damage to the co-operating service on which it depends.

"This is why Public Law is morally justified in claiming control over Capital."—*Canon H. Scott Holland, Pan-Anglican Conference, 1908.*

### **The Purpose of Workers' Unions.**

"We end on a note of warning. The object and purpose of the workers, organised vocationally in Trade Unions and Professional Associations, and politically in the Labour Party, is no mere increase of wages or reduction of hours. It comprises nothing less than a reconstruction of society, by the elimination, from the nation's industries and services, of the Capitalist Profit-maker, and the consequent shrinking up of the class of functionless persons who live merely by owning. Profit-making as a pursuit, with its sanctification of the motive of pecuniary self-interest, is the demon that has to be exorcised. The journey of the Labour Party towards its goal must necessarily be a long and arduous one. In the painful 'Pilgrim's Progress' of Democracy the workers will be perpetually tempted into by-paths that lead only to the Slough of Despond. It is not so much the enticing away of individuals in the open pursuit of wealth that is to be feared, as the temptation of particular Trade Unions, or particular sections of the workers, to enter into alliances with Associations of Capitalist Employers for the exploitation of the consumer. 'Co-partnership,' or profit-sharing with individual capitalists, has been seen through and rejected.

"But the 'co-partnership' of Trade Unions with Associations of Capitalists—whether as a development of 'Whitley Councils' or otherwise—which far-sighted capitalists will presently offer in specious forms (with a view, particularly, to Protective Customs Tariffs and other devices for maintaining unnecessarily high prices, or to governmental favours and remissions of taxation) is, we fear, hankered after by some Trade Union leaders, and might be made seductive to particular grades or

sections of workers. Any such policy, however plausible, would, in our judgment, be a disastrous undermining of the solidarity of the whole working class, and a formidable obstacle to any genuine Democratic Control of Industry, as well as to any general progress in personal freedom and in the more equal sharing of the National Product."—*Sidney and Beatrice Webb : The History of Trade Unionism*, Final paragraph. (1920 edition.)

### **The Right to Property : Theories.**

The holding of property depends on law. The claim to property, in law, rests upon :

- (1) Long-continued possession ; or in the legal phrase, "prescription" ;
- (2) Incorporation ; as where the possession of land gives after a time a claim to buildings set up by others (not the landowner) upon the land ; illustrated in the system of leasehold property.

The legal right to property may be secured by inheritance, gift, or purchase.

### *Non-Legal Theories.*

*The Utility Theory* : that is, the holding of property is justified because it serves a social purpose, and is a plan useful to society. This is the strongest basis of the right to own property. It contains within itself, however, a corollary : if and when society no longer considers the system of private property to serve a social purpose effectively, then society, on this argument, may take away the right it has given, whether gently or by violence, whether gradually or suddenly.

*The Labour Theory*.—Locke put the claim to property on the basis of the user of land "mixing his labour with the land." Others have made this basis more general : "the right of a man to the product of his own labour." This would apply fairly well to a community of small farmers, each making a living by solitary labour. But

it fits the case of the modern world rather badly : (1) it is reckoned in products, whereas in a money system reckoning is in values ; (2) the " product " of labour cannot often be separated out, as in such cases as a school-master, a carman, a clerk. Further, it gives but little basis for the holding of most large properties.

#### **Four Theories of Property (Hobhouse).**

" Property has sometimes been attacked on philosophical, sometimes on religious grounds. . . . Communism is advocated (by Plato) in the interests, not of enjoyment but of austerity. . . . But the principle of property was also criticised in antiquity from the point of view of Natural Law. Property . . . was a human institution. The gifts of Nature, the land and its fruits, must originally be free to all men. . . .

" (1) The conception of a natural Communism underlying the institution of positive law was taken up by the early Church. . . . In point of fact, as a political doctrine, Communism is an emotion rather than a system. . . .

" (2) The most popular theory of property associates it with the right to labour. On this basis Locke finds a justification for property antecedent to positive law. . . .

" (3) The centre of this (Aristotle's) line of thought is the conception that property is an instrument of personality, and in that form it has been revived, and has played an important part in modern thought. . . . A society which accepts the principle could not tolerate anything like the present distribution of wealth. . . . The possession of wealth which emancipates from toil, the possession of property which makes, not for the guidance of self, but for the control of others, stands on this principle condemned, and what is a justification of property becomes a reprobation of riches.

" (4) The Socialistic conception of property, which distinguishes between the appropriation of the means of production and the appropriation of the fruits of labour.



. . . To the Socialist (*i.e.* as distinguished from the Communist) property is not common to all, but is held in common for all. There is no enjoyment without a correlative performance of function.”—*Professor Hobhouse (The Historical Evolution of Property)*.

### Private Property.

“Take the case of private property, for example. Here is an institution which from one point of view may be regarded as the only method of securing to the workman the fruits of his toil. Under suitable conditions it may in reality have this effect. Under other conditions it may as easily become the means of excluding the mass of the people from the means of earning an independent livelihood. When the right of property is made absolute, whether as right natural or right divine, there is no ethical means of discriminating between the two cases. . . . Rights pushed to this point are answered by rebellion, and are therefore justly stigmatised by Bentham as anarchical fallacies. . . .

“In other words, though it is true that all rights are conditioned by the public welfare, the public welfare on its side depends on the maintenance of rights.”—*Professor Hobhouse (Morals in Evolution)*.

### The State and Property.

“Broadly speaking the State has not *created* property as a whole. The instinct of property, *i.e.* appropriation, is so deeply seated in humanity, that it finds clear and definite expression long before the appearance of the State; it is, in fact, justified by some philosophers on the ground that its realisation is essential, not merely to citizenship, but to human personality. On the whole, it seems impossible to question the justice of this view as applied to a world in any way resembling that in which we live. In such a world, the absolutely propertyless person is a slave; because he is dependent for the very

means of existence on the will of others. It is the question of degree which is really important.

"But again we ask: If property is appropriation, from or of what is it an appropriation? And then we find, on examination, that all *valuable* property is a compound of the skill and labour of the appropriator and the resources of the community. This is true even of mere loot, or plunder, either acquired by the older methods of brute force, or by the modern methods of the unscrupulous financier. It is also true, at the other end of the scale of the inventor, the author, and the painter. . . .

"If the State has done little to *create* property in chattels, it has done a great deal to protect and develop it. . . . the parlous condition of Trade Union funds before they were protected by recent legislation, shows how important is that protection under modern conditions. It is therefore essential that the State should, on the one hand, not refuse to extend its protection to property to which the contribution of the appropriator is high . . . and that it should not allow its protecting shield to be a bulwark for the predatory and anti-social exploitation of the resources of the community . . . the peculiarly English device of the Trust . . . originally devised for the purpose of protecting women, children, ecclesiastics . . . is now employed as a cover for vast commercial transactions. . . .

"Any ethical claim which the appropriator of the resources of the community may have to retain his appropriation dies with him. . . . This truth is beginning to be perceived by the larger community of the nation, as witness the increasing scales of the Death Duties. . . .

"The anarchic claims to 'do what I will with mine own' ignores not merely the fact that, but for the State's assistance, one's own would be a precarious possession, but the fact that, in no serious sense can a dead man be said to 'own' property. . . . The real

incentives to industry are habit, the joy of work, the stimulation of the nervous system which it engenders, the prospect of success and its consequent esteem, and, of course, the desire to satisfy the ordinary needs of existence. . . .

"The true functions of the State in connection with property are :

"To refuse to protect or favour any appropriation without a due return on the part of the appropriator.

"To restrain abuses of property.

"To raise the necessary revenue of the State from those best able to contribute to it, and

"To restrict the duration of proprietary powers within reasonable limits."—*E. Jenks, M.A. (The State and the Nation, 1919).*

### Theories of Wages.

What fixes or governs the amount of wages received by wage-earners ? To this question many answers have been given. Most of them are set out below.

(1) *Supply and Demand*.—This is certainly a correct answer, but it does not explain much.

(2) *The Iron Law of Wages, or The Subsistence Theory of Wages*.—The French economist and statesman, Turgot (*b. 1727, d. 1781*) is credited with giving the first expression of this "law": the wages of workers in all occupations "are limited to what is necessary to procure him a subsistence." Ricardo made it a definite theory, after this fashion :—

1. Labour is, to those who hire it, a commodity to be bought at the market value, and according to business methods : that is, as cheaply as possible.

2. The exchange value of all commodities is fixed by their cost of production.

3. The cost of producing a continuous supply of labour is the lowest wage on which men can live, and bring up families of labourers to replace them.

4. Therefore wages constantly tend to the minimum subsistence of a family.

No doubt Turgot saw, among the peasantry of France before the Revolution, what appeared to him to be living proofs of his explanation. No doubt, also, Ricardo saw in the early nineteenth century in England practical examples of families living on bare subsistence wages. The name "iron law" or "brazen law" is said to have been used first by the German Socialist Lassalle, as if to say :

"These are the fetters of iron in which you and your descendants are to live and labour for ever. So say the chief economists of capitalist society."

The same idea of a "subsistence wage" is expressed in the lower view of "a living wage," and many modern Socialists, following Lassalle, describe it scornfully as "a fodder basis."

[*"Labour as a Commodity."* Note. (See also p. 262.)

Whether labour is or not a "commodity" like soap or corn, to be bought at the lowest possible price, is an old and often a bitter argument in economics. Part of the dispute arises from confusing the question: "Ought labour to be treated as a commodity?" (to which the answer of course is a plain "No"), with the question: "Is labour in fact treated as a commodity?" To this the answer is that undoubtedly it is sometimes so dealt with and so thought of. Under a slavery system, labour quite clearly is treated as a commodity. The mediæval serf was not so considered, since his rights as well as his duties were clearly set out; only that, as part of the estate, he was tied to the land as much as the plough-ox; and to that extent was a commodity. The modern wage-earner has a much freer position. But the rate of wages, his commodity price, is controlled in the main by the same forces of supply-and-demand that control the prices of commodities in general.]

(3) *The Productivity Theory.*—This theory begins by

declaring that labour is not a commodity, but "an instrument" or "a factor" of production. Wages are paid (1) because work is productive, and (2) in proportion to its productivity. This theory, like many economic theories, contains part of the truth. Certainly we often see the abler and the quicker workman (*i.e.* the more productive worker) receiving higher wages than the less able and less productive workers. There will be a demand for such men at a higher rate of wages. But what of the supply? Suppose in a certain trade, the productiveness of these abler men is suddenly farther increased by 25 per cent.; and at the same time, that the numbers of the abler men are increased by 50 per cent. or 100 per cent. Wages will not then rise but fall, because more of these abler workers will be seeking employment than the trade needs. Wages depend on the supply of labour as well as on its productiveness. If five thousand railway workers all develop the abilities fitting them as General Managers, they will not all become General Managers, for the railway system has not that number of posts of this kind. "Make yourself more efficient" is a path to higher wages; but only on condition that most of your rivals do not imitate you. The world is the better, economically, for all increases of efficiency; but it does not guarantee an increased payment. In questions of value measured in money, all arguments and theories should be tested by the question: Have the two sides, Supply and Demand, been taken into consideration, or has one of them wholly or partly been forgotten? Many errors in economics can be traced to a neglect of this kind. Supporters of this theory sometimes went further. The amounts going out of the total product, they said, are fixed in connection with Rents and Profits (or Interest). If these amounts are subtracted from the total, what remains is the share going to wages. This idea occurs again in the theory No. (6) below.

(4) *The Standard of Comfort Theory*.—By this theory,

wages depend on the standard of comfort of the workers, the standard that they maintain and demand. Wages in America are higher than in India, because Americans have a higher standard of comfort. This is another example of the error mentioned in No. (3) above. It puts the cart before the horse in thinking of the demand for labour while forgetting about the conditions of its supply : forgetting to take account of the more crowded state of India as compared with America. The answer to it is contained in an old doggerel rhyme :

“ A man is not rich  
Because he drives in a coach-and-six ;  
He drives in a coach-and-six  
Because he is rich.”

High wages cause a higher standard of comfort. But a high standard of comfort, *by itself*, does not cause high wages.

(5) *The Wage Fund Theory*.—This is a famous economic ghost of the last century. The only part of it that is true is the part that needs no proof. In form it runs after this fashion :

(i) Capitalists spend part of their capital each year in wages.

(ii) The amount they will spend in wages each year is fixed. This is the fund from which all wages are paid.

(iii) Divide the total of the fund by the total of the workers, and the amount of wages per head is the answer.

(iv) Wages can only be increased by an increase of the Fund, or by a decrease in the number of workers.

(v) If one group of workers gets more wages, that group gets it at the expense of other workers, who will of course get less.

(vi) Trade Unions, therefore, cannot raise wages. They can only increase the wages of some by lowering the wages of others.

The workers, as a rule, could not answer this

argument; but disbelieved it and continued to form Trade Unions and to try to raise wages through their action. They believe they have done so; and that is now the general opinion. If the opinion is a mistaken one, it is not because of the Wage Fund Theory, but because of other reasons.

Capitalists do not set a fixed amount to pay in wages. Each year a certain amount is actually paid in wages; and if this amount be divided by the number of workers, the answer gives the average wages. This part of the Theory is true; but it is less a theory than an example in simple arithmetic.

Wages are paid out of the product of industry. They can be increased in two ways:

(i) By increasing the total product, while that total is divided between labour and capital in the same proportions as at present.

(ii) By increasing the proportion of the total product that is to go to labour.

At present, wages are increased by method (i). The evidence goes to show that the proportion going to labour is decreasing; because the increase of capital causes an increased "share" to go to capital.

(6) *The Marginal Utility Theory*.—Professor Marshall has described this theory by the case of his famous "marginal shepherd." This man, a shepherd of average abilities and efficiency, is added, after some hesitation, to the workers of a large sheep farm. Engaging him does not mean any increase of plant or working expenses. His extra labour will mean an increase of, let us say, twenty sheep. His wages will be just a little below the value of twenty sheep, which form the "net product" of his labour. Not only his wages, but the wages of all the shepherds of the farm, will be fixed at nearly the value of twenty sheep. So (1) the rate of wages is fixed by the wage of the "marginal labourer" "who is only just worth adding to the staff of workers." Only just,

not because he is inefficient (he is an average worker) but because it would be unprofitable to employ any more men after he has been engaged. Also (2) his wages are fixed by the net value of his labour.

This last point appears to suggest that workers get for wages "the value of their work." But that phrase can be used to mean several things. In this case it means a net value which is found by subtracting Rent, Interest, and Profits from the Total Product. What is left is the net value which goes to labour. By using the first letter of each word, we can make of this a formula :

$$(\text{Total Product}) - (R + I + P) = (\text{Net Product})$$

which goes to wages ; or more simply still :

$$T. P. - (R + P + I) = W.$$

But equally we may say :

$$T. P. - (R + I + W) = \text{Profits.}$$

$$T. P. - (W + I + P) = \text{Rent.}$$

$$T. P. - (W + R + P) = \text{Interest.}$$

The part of the theory which explains how the wages of the Marginal Man fix the wages of the group, is much more satisfactory than the part of it which explains that wages are equal to the "net product" of labour, since the whole difficulty remains in the problem of fixing what this net product really is.

### **Labour as a Commodity** (see page 258).

"Labour, apart from its product, is not paid for and is never a commodity, and nothing but confusion results from so viewing and treating it. The statement so frequently met with in works on Political Economy that 'labour is a commodity and is governed by the same laws as other commodities' is one of the most mischievous



errors that still cling to the science . . . the wage of labour is the market value of its product . . . all labour is mental. . . . Not every form of wealth is created by labour ; but every form of labour creates wealth. Wealth is always the cause of labour ; labour is not always the cause of wealth. . . .

"If the labourer is an engine, his motive power is fuel ; if he is a man, his motive power is hope. . . . It is the so-called 'unproductive consumption' \* which, if soul forces be recognised, is production of wealth."—*Professor J. B. Clark.*

"Great confusion of mind commonly exists as to the nature of the exchange which takes place between an employer and those whom he employs. It seems for the most part to have arisen from the erroneous notion that an employer buys labour. This is not at all the case. Labour is not a commodity—it is neither desirable nor exchangeable. What an employer buys is in all cases not the labour of doing a thing but the work done."—*Professor Cannan.*

### Mines : a Statistical Summary.

From "Command Paper" 2111, 1924 (2d.). The paper gives figures for Scotland (which produces about one-seventh of the whole), South Wales (about one-fifth), North Wales and the English districts. Here only the totals are given.

	Summary for Great Britain. Tons.
Output of coal :	
1. Tonnage of saleable coal raised . . . . .	67,838,789
2. Mine consumption . . . . .	4,114,976
3. Miners' coal . . . . .	1,669,993
4. Tonnage disposable commercially . . . . .	62,053,820

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\* A phrase used by J. S. Mill and others to describe all expenditure over and above what was necessary to enable a man to work : the latter was "productive consumption," recently described in the bitter modern phrase "the fodder basis."

	Amount disposable commercially.		Per ton.
	£	s.	d.
Cost of production :			
5. Wages . . . . .	39,261,510	12	7'85
6. Stores and timber . . . . .	6,732,766	2	2'04
7. Other costs (management, salaries, insurances, repairs, office and general expenses, depreciation, etc.)	8,177,266	2	7'62
8. Miners' Welfare Fund Contributions	282,313	0	1'09
9. Royalties (including the rental value of freehold minerals where worked by the proprietor) . . . . .	1,573,676	0	6'09
10. Total costs . . . . .	56,027,531	18	0'69
11. Deduct proceeds of miners' coal . . . . .	365,561	0	1'41
12. Net costs . . . . .	55,661,970	17	11'28
Proceeds :			
13. Commercial disposals . . . . .	61,744,941	19	10'81
Balance :			
14. Debits . . . . .			
15. Credits . . . . .	6,082,971	1	11'53
16. Number of workpeople employed . . . . .	1,120,204		
17. Number of man-shifts worked (including week-end and over-time shifts) :			
(a) At the coal face . . . . .	30,234,715		
(b) Elsewhere below ground . . . . .	30,358,115		
(c) On the surface . . . . .	15,807,862		
(d) Total above and below ground	76,400,692		
18. Number of man-shifts lost which could have been worked . . . . .	6,637,723		
19. Output per man-shift worked . . . . .	17'76		cwts.
20. Earnings per man-shift worked . . . . .	10s. 3'33d.		

### The Civil Service.

1829. The Duke of Wellington ("who was responsible for the creation of . . . the War Office Clerk") complained that "the whole system of the patronage of the Government is in my opinion erroneous." The recognised methods of filling appointments in most of the great Public Departments was then personal patronage.

1833. The East Indian Company began to appoint its servants by the method of competitive examination.
1849. Sir Charles Trevelyan said : " There is a general tendency to look to the public establishments as a means of securing a maintenance for young men who have no chance of success in the open competition of the legal, medical, and mercantile professions. The dregs of all other professions are attracted towards the public service as a secure asylum."
1853. Mr. Gladstone commissioned an inquiry into the Civil Service. The Report advised appointments by competitive examination.
1855. Civil Service Commission created. Competitive examinations established for appointments to junior situations. But there was no examination for those nominated by the Departments through the commissioners.
1870. An Order in Council made appointment by competitive examination compulsory.

## THE CIVIL SERVICE IN 1914.

Total about . . . .	15,000
Administrative Class . . .	450
Intermediate Class . . .	1,250
Second Division . . . .	4,000
Assistant Clerks . . . .	3,000
Boy Clerks . . . . .	2,500
Women Clerks . . . . .	3,000
Typists . . . . .	600

—From *The Ministry of Reconstruction Pamphlet No. 38* (1919).

### Laws of Political Economy.

*Law of Demand.*—The more that is offered on the market of any commodity, the lower will be its price; and *vice versâ*.

*Law of Returns : Increasing, Constant, or Diminishing.*—“At any given time, or, which comes to the same thing, knowledge and circumstances remaining the same, there is what may be called a point of maximum return, when the amount of labour is such that both an increase and a decrease in it would diminish proportionate returns.”—*Cannan*.

*Law of Indifference.*—In the same open market there cannot be at the same time two prices for the same kind of commodity.

*Law of Population.*—“At any given time the amount of labour which can be exerted on a given extent of land consistently with the attainment of the greatest production of industry possible at the time, is definite.”—*Cannan*.

*Law of Satiabie Wants.*—The satisfaction of a want is not measured equally by equal quantities of the commodity that is wanted. The satisfaction derived from any portion of the commodity is less than that from the preceding and greater than that of the following portion.

*Economic Laws.*—“Economic laws are not in any sense absolute statements. They relate to assumed conditions of society. . . . The laws of economics are statements of tendencies expressed in the indicative mood, and not ethical precepts in the imperative.”—*Marshall (Dictionary of Political Economy)*.

“Economic laws depend on the voluntary action of men. . . . If prices rise, it is because some men choose to demand and others consent to give more money than formerly for the products of industry. To predict such a rise is to foretell the action of the human will.”—*Prof. J. B. Clark*.

**Better Production through a Better Distribution.**

"The older economists took too little account of the fact that human faculties are as important a means of production as any other kind of capital; and we may conclude, in opposition to them, that any change in the distribution of wealth which gives more to the wage receivers and less to the capitalists is likely, other things being equal, to hasten the increase of material production, and that it will not perceptibly retard the storing up of material wealth. Of course other things would not be equal if the change were brought about by violent methods which gave a shock to the public security. . . . A people among whom wealth is well distributed, and who have high ambitions, are likely to accumulate a great deal of public property."—*Professor Marshall*.

**Theory of Under-Consumption.**

"For more than three years shipyards have been standing idle in this country, furnaces have been shut down, factories and workshops in our staple trade closed or working short time, and the labour available for operating those industrial plants has been unemployed. All the instruments for producing goods are at hand, plant, materials, working capital, workers. But the goods cannot be produced. Why? Because they cannot find a market at a price that will pay the costs of their production. The failure of markets thus appears as the immediate cause of the unemployment of capital and labour. . . . A great deal of wealth cannot get produced because, if it were produced, it could not get consumed. Why? Because there is not enough purchasing power in the possession of those who would desire to consume these goods. . . .

"There is a reasonable limit to the economic foresight of a man, or a community, in making preparations for the distant future. . . . Let us assume that in a nation like ours one-sixth of the general income may be

usefully saved and applied to increased capital, and that the enlarged output of consumable goods which will emerge from this enlarged machinery will find consumers when they are produced. On this assumption any attempt to save one-fifth, instead of one-sixth, of the national income would, if it were continuously carried on, bring about an increase of productive power and of actual production in excess of the rate at which consumable goods were being taken out of the retail shops. The failure to spend a large enough proportion of the income on consumables would bring about precisely that congestion of the machinery of industry, that stoppage and general unemployment, which we perceive to occur in cyclical depressions.

“But why should there be this tendency to try to save too large a proportion of income? I find the answer in the prevailing distribution of income, which places too large a share in the hands of some, too small a share in the hands of others. Inequality of income favours and impels excessive saving. Economists are agreed that the wealthy save a far larger part of their income than the other classes. This is natural, for after their ordinary and luxurious wants are satisfied, there will remain often a large surplus which accumulates almost automatically and swells the volume of savings that “go back into the business” or are available for new investment. . . .

“A trade depression, due to an attempt to save too much and to spend too little, compels a general slowing down of purchases, not only of consumables, but of capital goods throughout the whole economic system. A higher and more regular standard of living for the masses of the people, representing a larger share of the enlarged total income which full regular working of our industry would provide, will enable consumption to march full pace with production. Then, given a properly controlled monetary system, unemployment might be kept at the lowest level consistent with the necessary

give-and-take of a growing economic system.”—*J. A. Hobson* (1924).

### Functions of the State.

“Government now does whatever experience or the times demand. . . .

#### “I. *The Constituent Functions.*

“(1) The keeping of order and providing for the protection of persons and property from violence and robbery.

“(3) The regulation of the holding, transmission, and interchange of property, and the determination of its liabilities for debt and for crime.

“(4) The determination of contract rights between individuals.

(Nos. 2, 5, 6, 7, 8 are omitted, as they have little economic bearing.)

#### “II. *The Ministrant Functions.*

“(1) The regulation of trade and industry (the author here cites coinage, weights and measures, ‘Laws against forestalling,’ the licensing of trades, etc.; tariffs, navigation laws).

“(2) The regulation of labour.

“(3) The maintenance of thoroughfares—including State management of railways.

“(4) The maintenance of postal and telegraph systems.

“(5) The manufacture and distribution of gas, the maintenance of waterworks, etc.

“(6) Sanitation, including the regulation of trades for sanitary purposes.

“(7) Education.

“(8) Care of the poor and incapable.

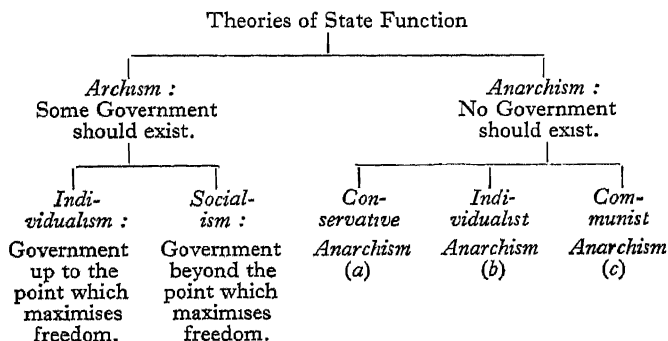
“(9) Care and cultivation of forests and like matters, such as the stocking of rivers with fish.

“(10) Sumptuary laws, such as ‘prohibition laws,’ for example.

"All nations have habitually regulated trade and commerce. . . . Labour, too, has always been regulated by the State. . . . In proportion as the world's industries grow must the State advance in its efforts to assist the industrious to advantageous relations with each other. The tendency to regulate labour rigorously and minutely is as strong in England, where the State is considered the agent of the citizen, as it was in Athens, where the citizen was deemed the child and tool of the State, and where the workman was a slave."—Woodrow Wilson (*The State*, 1918 edition).

### THE FUNCTION OF THE STATE.

A table formed by Mr. J. H. Levy.



(a), (b), (c), on Land Policy, for example :—

- (a) Retain private property in land, but abolish obstacles to free sale and purchase.
- (b) Productive use the only claim to land.
- (c) No property rights in land whatever.

### Public and Private Businesses.

"I. Our system of public administration is based in the last resort upon our Parliamentary constitution, and that in itself is a very complex affair. This fact cannot be ignored, and it differentiates the appropriate



machinery for the conduct of public business from that of private business in a number of ways :—

“(i) It employs a system of finance and accounts, which has been held generally suitable for the transaction of public business as a whole, but which presents practical difficulties in dealing with certain types of affairs. . . .

“(ii) It necessarily removes many of the incentives to personal effort and economical administration which normally exist in private business. The system of accounting by appropriation as compared with the commercial balance sheet is for public purposes more or less inevitable. But it removes the rough-and-ready test of efficiency which the balance sheet affords. . . .

“(iii) It involves the keeping of a highly elaborate system of accounts and records, with checks and counter-checks unknown and unnecessary in private business, and this in turn involves the maintenance of a highly specialised and comparatively numerous staff.”—(*Reconstruction Pamphlet : see below*).

“II. The Departments, grouped according to their Functions.

“(1) The Treasury and the Allied Departments.

“(2) Departments dealing with external relations and Defence.

“(3) Departments concerned with Production and Employment.

“(4) Departments concerned with Domestic Administration.”

(*The Business of Government : Ministry of Reconstruction Pamphlets, No. 38, I. and II. (1919).*)

### **Direct Interference with Industry by the State.**

“It is an open question how far the State should directly interfere with economic matters. Quite generally it assumes the power to protect inventors by granting them patents ; and, in many countries, it uses its power

of taxation to aid some forms of industry, and even to hinder other forms, which it regards as injurious. All modern states undertake the transmission of mail matter, and keep important roadways in order ; many states go farther, and control the railways and the telegraph. 'Public works' important for the general welfare, such as the dredging of harbours, surveys of land, and charts of the shore, are generally undertaken by the State. And to-day the State is asked to go farther still, and to become an employer of labour in numerous forms of industry. It is generally agreed that the State is society as exercising final authority, and making rules which bind all classes alike. The limits of direct State activity in the economic sphere will be determined in the light of this principle : where final authority and universal rules are more advantageous than freedom of individual initiative, the State should assume control. Evidently the line will be drawn differently in different localities and in different ages."—*Professor Arthur Fairbanks.*

### **Balance of Trade : Theories.**

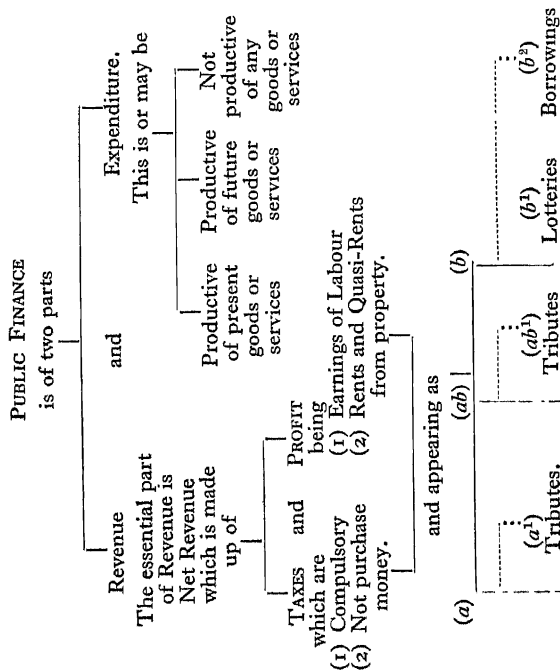
*Mercantilist Theory.*—A nation should export more than it imports, receiving the difference in money (gold and silver). The aim was to increase the store of "wealth" (in gold and silver) in the country. Plainly, this was not a rule that every nation could successfully follow.

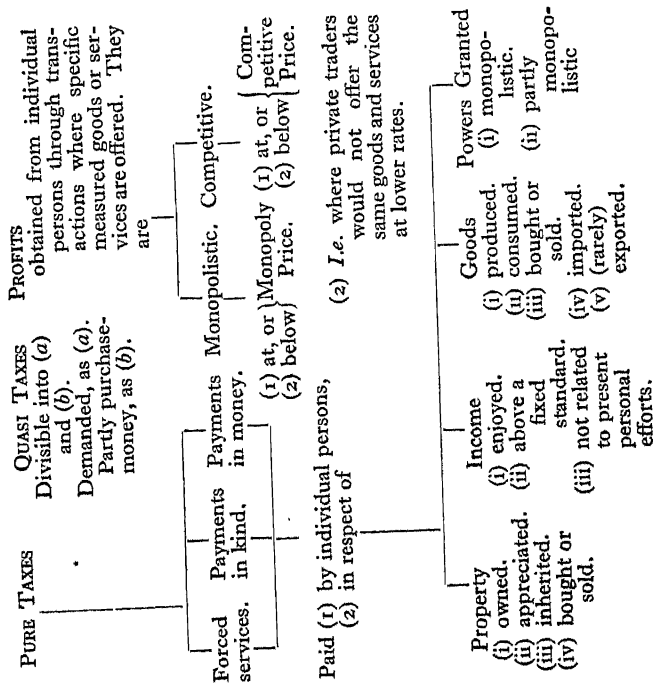
*Later Theory.*—Imports must be paid for by exports. This is only roughly true. If a country A has invested money in another country B, then A will receive imports from B as interest on the capital invested, and these need not be "balanced" by exports from A to B. If A is a shipping nation, and B is not, imports into A will often represent the charges for carrying B's goods.

## BALANCE SHEET, 1924-25.

ESTIMATED REVENUE, 1924-25.		ESTIMATED EXPENDI- TURE, 1924-25.	
	£	CONSOLIDATED FUND SERVICES.	
Customs . . .	101,800,000		£
Excise . . .	135,900,000	National Debt	
<i>Total Customs and Excise . . .</i>	<i>237,700,000</i>	Services . . .	350,000,000
Motor Vehicle		Payments for	
Duties . . .	15,600,000	Northern Ire-	
Estate, etc., Duties	56,000,000	land Residuary	
Stamps . . .	21,000,000	Share, etc. . .	3,500,000
Land Tax, House		Road Fund . . .	15,000,000
Duty and Mine-		Payments to Local	
ral Rights Duty	1,250,000	Taxation Ac-	
Income Tax . . .	265,000,000	counts, etc. . .	13,150,000
Super Tax . . .	61,000,000	Land Settlement . .	750,000
Excess Profits Duty,		Other Consolidated	
etc. . .	8,000,000	Fund Services . . .	2,440,000
Corporation Profits			
Tax . . .	20,000,000	TOTAL CONSOLI-	
<i>Total Inland</i>		DATED FUND	
<i>Revenue . . .</i>	<i>432,250,000</i>	SERVICES . . .	£384,840,000
TOTAL RECEIPTS		SUPPLY SERVICES.	
FROM TAXES . . .	£685,550,000	Army . . .	45,000,000
Post Office . . .	53,500,000	Navy . . .	55,800,000
Crown Lands . . .	900,000	Air Force . . .	14,511,000
Interest on Sundry		Civil Services . . .	227,573,000
Loans . . .	12,250,000	Customs and Ex-	
Miscellaneous :—		cise, and Inland	
Ordinary Receipts	11,850,000	Revenue Depart-	
Special Receipts	30,000,000	ments . . .	51,081,000
TOTAL RECEIPTS		Post Office Ser-	
FROM NON-		vices . . .	11,221,000
TAX REVENUE . . .	£108,500,000	TOTAL SUPPLY	
TOTAL REVE-		SERVICES . . .	£405,186,000
NUE . . .	£794,050,000	TOTAL EXPENDI-	
		TURE . . .	790,026,000
		Surplus . . .	4,024,000
		TOTAL EX-	
		PENDITURE . . .	£794,050,000

TABLE OF THE RELATION OF TAXES TO REVENUE.

(Reproduced from *The Nature and First Principle of*



**Taxing and Rating.**

"It is clear that two great principles and canons of taxation swayed the minds both of the people who respected custom in the assessment of the old rates and of the politicians and parliamentary draftsmen who created new statutory rates. These principles or canons are :

"(I) That every inhabitant of a district should be made to contribute according to his ability ; and (II) That every one who receives benefit from the local expenditure should be made to contribute in proportion to the benefit he receives.

"Applied to the same rate, the two principles are obviously incompatible. It is difficult to think of any kind of government expenditure which confers benefits upon people approximately in proportion to their ability to contribute. But it happens that in practice the nearest possible approximation to local rating according to ability and the nearest possible approximation to local rating according to benefit are one and the same thing, namely, the rating of persons in respect of fixed property in the district. . . .

"The two great guiding principles . . . are Equity and Economy, the latter being, of course, understood not in the vulgar sense of spending little, irrespective of the return to the expenditure, but in the sense of the best utilisation of available means."—*Professor Cannan : History of the Local Rates.*

## Customs Duties, 1924-25

(Levied on goods coming into the country).

		Duties.			Duties.		
		Full Rate.			Preferential Rate.		
		£	s.	d.	£	s.	d.
Customs :							
Tea	per lb.	0	0	4			
Cocoa	per cwt.	0	14	0			
Husks and shells	per cwt.	0	2	0			
Butter	per lb.	0	0	1½			
Coffee :							
Not kiln-dried, roasted or ground	per cwt.	0	14	0			
Kiln-dried, roasted or ground	per lb.	0	0	2			
Coffee and Chicory :							
Roasted and ground, mixed	per lb.	0	0	2			
Chicory :							
Raw or kiln-dried	per cwt.	0	13	3			
Roasted or ground	per lb.	0	0	2			
Sugar exceeding 98 polarisation	per cwt.	0	11	8			
Other degrees at proportionate rates.							
Molasses—according to percentage of sweetening matter	per cwt.	0	2	0			
			to				
Glucose : Solid		0	7	5			
Liquid		0	7	5			
Saccharin	per oz.	0	5	4			
Raisins, Figs and Plums, dried or otherwise preserved	per cwt.	0	3	9			
Table Waters :							
Sweetened or fermented	per gall.						
Herb beer							

Five-sixths of Full Rate.

repealed, 1924.

## New Import Duties :

Cinematograph Films	per linear foot			
Blank	"			
Positives	"			
Negatives	"			
Clocks and Watches and parts thereof	Ad valorem			
Motor Cars and Motor Cycles and accessories, etc.	"			
Musical Instruments and accessories, etc.	"			

repealed, 1924.

## Excise Duties, 1924-25

(Levied on goods produced or manufactured in the country).

		Duties.		
		£	s	d.
Excise :				
Chicory, raw or kiln-dried . . .	per cwt.	0	10	0
Coffee substitutes . . . . .	per $\frac{1}{4}$ lb.	0	0	0 $\frac{1}{2}$
Sugar (not made from home-grown beet) exceeding 98 polarisation	per cwt.	Five-sixths of the Full Customs rate of imported Sugar or Molasses.		
Other degrees at proportionate rates.				
Molasses (not made from home-grown beet) according to percentage of sweetening matter . . .	per cwt.			
Glucose :				
Solid . . . . .	per cwt.	0	6	2
Liquid . . . . .	"	0	4	5
Saccharin . . . . .	per oz.	0	3	1
Table Waters :				
Sweetened or fermented . . . . .	per gall.	Repealed, 1924.		
Herb beer . . . . .	"			

## Entertainments Tax, 1924-25

## Entertainments :

Where payment for admission, excluding the duty—		Duties.		
Does not exceed 6d.		£	s.	d.
Exceeds 6d. and does not exceed 7d.		.	0	0 1
" 7d.	" "	8d.	.	0 0 1 $\frac{1}{2}$
" 8d.	" "	1s.	.	0 0 2
" 1s.	" "	1s. 1d.	.	0 0 2
" 1s. 1d.	" "	1s. 3d.	.	0 0 3
" 1s. 3d.	" "	2s.	.	0 0 4
" 2s.	" "	3s.	.	0 0 6
" 3s.	" "	5s.	.	0 0 9
" 5s.	" "	7s. 6d.	.	0 1 0
" 7s. 6d.	" "	10s. 6d.	.	0 1 6
" 10s. 6d.	" "	15s.	.	0 2 0
and for every 5s. or part of 5s. over 15s.		.	.	0 0 6

## Scales of Taxation.

1. *Regressive* taxes are levied so that the smaller incomes are levied upon more heavily than the larger incomes (the opposite of No. 4).



2. *Degressive* taxes are in proportion to incomes, with an exemption for incomes below a certain level.

3. *Proportional* taxes are levied in proportion to incomes.

4. *Graduated* or *Progressive* taxes are levied so that the higher incomes are taxed at a higher *percentage* than the lower incomes.

### The British Income Tax.

#### 1st Period.

1789-1799. Tax on incomes of over £60 per annum.

A graduated scale up to incomes of £200 and over, which paid 10 per cent. Accepted only as a war tax.

1802. Tax repealed.

1803. Tax re-imposed, at 3d. in the £ on incomes of £60 rising to 1s. in the £ on incomes of £150 and over.

1805. 25 per cent. increase.

1806. 2s. in the £ on incomes of £150 and over. Abatements allowed on earned incomes below £150.

1816. Income tax abolished.

#### 2nd Period.

1842. Income tax in time of peace. Rate, 7d. in the £ on incomes of £150 and over.

1854. Exemption limit lowered to £100. Rate, 1s. 2d. (Crimean War).

1875. Rate 2d. in the £.

1907. Different rates for "earned" and "unearned" incomes. Maximum rate 1s. in the £.

1911. Super tax added: an extra tax on large incomes.

1914. Rates doubled (war).

- 1915. Maximum rate 3s. in the £.
- 1917. Rates 2s. 3d. to 5s. in the £ with new abatements, especially in the cases of soldiers and sailors.
- 1918. Rates 2s. 3d. to 6s. in the £.
- 1922. Super tax 1s. in the £. (on £500 out of incomes of £2,500) to 4s. 6d. in the £ (on incomes above £10,000).
- 1923. Maximum poundage, 5s.
- 1924. Maximum poundage, 4s. 6d.

### **The Estate Duties (Death Duties).**

- 1694. Stamp duty (5s.) on wills bequeathing over £20 (Probate duty).
- 1889. Duty raised to 3 per cent.
- 1894. Estate Duties, on a scale of twelve charges, from 1 per cent. on estates of £100 to £500, to 8 per cent. on estates of over a million.
- 1909. The percentage charges rose to 15 per cent. on estates of over a million, the 1 per cent. on estates of £100 to £500 remaining unchanged.
- 1920. Rate on estates of over a million raised to 30 per cent.; over two millions, 40 per cent.
- 1924. Rates as in 1920. Produce, 1923, £57,800,000.

### **Payers of Super-Tax.**

The following table gives the most recent and the best available estimate of the numbers of persons with incomes of over £2,000 per annum. It is taken from the Official Report of Parliamentary Debates, Vol. 174, No. 79, May 29th, 1924 (at the Stationery Office, 6d.).

*Super-Tax.*—Number of Individuals and Total Incomes assessed up to the 30th April, 1924.

# ADAM SMITH'S MAXIMS OF TAXATION 281

		Year of Assessment, 1922-23 (Great Britain and N. Ireland).	
Exceeding	Income	Number of	Total Income.
£	£	Individuals.	£
2,000	2,500	19,758	44,729,621
2,500	3,000	13,917	38,444,951
3,000	4,000	16,477	57,324,596
4,000	5,000	9,236	41,569,892
5,000	6,000	5,910	32,558,487
6,000	7,000	4,009	26,203,465
7,000	8,000	2,783	20,980,719
8,000	10,000	3,658	32,887,279
11,000	15,000	4,246	51,801,250
15,000	20,000	1,768	30,374,593
20,000	25,000	813	20,374,230
25,000	30,000	514	13,987,582
30,000	40,000	567	19,217,058
40,000	50,000	291	12,974,853
50,000	75,000	278	16,865,005
75,000	100,000	127	10,776,263
100,000	—	137	26,671,371
Totals		84,589	497,741,215

## Super-Tax, 1924-25.

The amount of Super-tax charged for the year 1924-25 is arrived at as follows:—

Total income for Super-tax purposes, £		
On the first £2,000		Nil.
„ next £500 at 1s. 6d. in the £		£37 10 0
„ „ £500 „ 2s. „ „		£50 0 0
„ „ £1,000 „ 2s. 6d. „ „		£125 0 0
„ „ £1,000 „ 3s. „ „		£150 0 0
„ „ £1,000 „ 3s. 6d. „ „		£175 0 0
„ „ £1,000 „ 4s. „ „		£200 0 0
„ „ £1,000 „ 4s. 6d. „ „		£225 0 0
„ „ £12,000 „ 5s. „ „		£3,000 0 0
„ „ £10,000 „ 5s. 6d. „ „		£2,750 0 0
On further amounts 6s. in the £.		

## Adam Smith's Maxims of Taxation.

“Before I enter upon the examination of particular taxes, it is necessary to premise the four following maxims with regard to taxes in general.

“I. The subjects of every State ought to contribute towards the support of the government, as nearly as

possible, in proportion to their respective abilities ; that is, in proportion to the revenue which they respectively enjoy under the protection of the State.

"II. The tax which each individual is bound to pay ought to be certain, not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.

"III. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it.

"IV. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State."—*The Wealth of Nations*, Book V, Chapter II.

### **Professor Bastable's Principles of Taxation.**

"1. Taxation should be productive. . . .

"2. Taxation should be economical. . . .

"3. Taxation should be justly distributed, . . . and this again may be taken to mean 'taxation in proportion to income.' . . .

"4. The tax should be elastic. . . .

"5. Taxation should be certain. . . . Of high importance in earlier times, but now requiring less emphasis owing to its general observance."—*Professor Bastable : Public Finance*.

### **Principles and Rules of Taxation.**

#### **I. Ethical Principle.**

##### **1. Justice or Equity.**

#### **II. Economic Principles.**

##### **2. Economy.**

(a) in the final effects upon the production and distribution of wealth ;

- (b) in securing a close equality between
- (i) the taxes levied,
  - (ii) the amounts paid by the persons levied upon,
  - (iii) the amounts received by the Treasury.

### III. *Political Principle.*

#### 3. *Conscious Citizenship.*

(i.e. the payers should know, as far as possible, when and why they are paying taxes).

### IV. *Administrative Rules.*

4. Productivity.
5. Certainty.
6. Uniformity.
7. Convenience.
8. Generality.
9. (Cf. No. 2) The Economic Principle 2 (b),  
(i), (ii), (iii).

## Direct and Indirect Taxes.

Year.	Percentages.	
	Direct.	Indirect.
1841 . . .	27 . . .	73
1851 . . .	33 . . .	67
1861 . . .	38 . . .	62
1871 . . .	39 . . .	61
1881 . . .	40 . . .	60
1891 . . .	44 . . .	56
1900-1906 . . .	50 . . .	50
1910-1913 . . .	57 . . .	43
1914 . . .	60 . . .	40
1917 . . .	82 . . .	18
1919 . . .	75 . . .	25
1922 . . .	73 . . .	37
1923 . . .	66 . . .	34
1924-25 . . .	67 . . .	33

### The Minimum Sacrifice Theory of Taxation.

“In considering the equity of any political system, the test which should be applied is the greatest happiness principle. From this principle it follows that *cæteris paribus* the sum of privation or sacrifice caused by taxation should be a *minimum*. Therefore, if a certain amount of taxation has to be raised (for purposes of which the benefit cannot be allocated to particular persons), the *primâ facie* best distribution is that the whole amount should be paid by the wealthiest citizens. The incomes above a certain level should all be reduced to that level; the incomes below that level should be untaxed, the level being determined by the amount which it is required to raise.

“This levelling principle requires to be corrected by several prudential considerations. There is the danger of driving the rich, or at least their riches, from the country, and checking accumulation; there is the danger of awakening the predatory instinct of the poor, and precipitating revolution. When tempered by ordinary prudence, the suggested rules of equity deduced from the principle of least sacrifice are not, in practice, very different from the received rules which are deduced from the principle of equal sacrifice. But there is an important theoretical difference between the first two principles.

“I maintain that the principle of equal sacrifice derives its acceptance from its similarity in conception and dictates to the principle of least sacrifice: that the former has no authority independent of the latter. J. S. Mill, the leading authority on the subject, confuses the two principles. In the same breath he announces the principle of equal sacrifice and identifies it with that of least sacrifice. ‘Whatever sacrifices it (Government) requires of them (persons or classes) should be made to bear as nearly as possible with the same pressure upon all, which, it must be observed, is the mode by which

least sacrifice is occasioned on the whole.' The association in Mill's thought between equal sacrifice and equality—an inference from least sacrifice, is apparent in his method of advocating the limitation of inheritances, and in the juxtaposition noted by Professor Sidgwick, between the first clause above quoted and the dictum in the same section that 'the true idea of distributive justice consists . . . in redressing the inequalities . . . of nature.'

"Many distinguished foreign authorities also seem to hover between the two principles, having 'equal sacrifice' on their lips, but using arguments which are germane to 'least sacrifice.'

"The principle of equal sacrifice has sometimes been clearly distinguished from that of utilitarianism pure and simple, and preferred to it as being free from the dangers which, as above admitted, attend the working of the latter principle. But in order to deduce any rule of distribution from the principle of equal sacrifice, there is needed some assumption as to the degree of slowness with which utility tends to increase with the increase of means. Upon a very probable assumption as to that slowness, the principle of equal sacrifice would lead to a progressive taxation almost as drastic as that which has been above described. This is admitted by Professor Sidgwick when he says, 'If equalisation of burden were the sole consideration, the equity of a graduated rate of taxation, rapidly increasing as incomes rise, could hardly be denied.'

"It should seem therefore that, as a working principle, equal sacrifice has no great advantage over least sacrifice." —*Professor Edgeworth: Memoranda on Imperial and Local Taxes.* (This is a Government publication, C. 9528, 1899. It is a storehouse of opinions on the principles of taxation.)

**Taxation and the Distribution of Wealth.**

"The average or ordinary person holds vaguely in his mind three different and wholly inconsistent principles with regard to the distribution of wealth. He believes :

"(A) That incomes should be equal, with some modifications to meet differences of need.

"(B) That incomes should be proportionate to moral merit.

"(C) That incomes should be proportioned to the value of the services rendered by the receiver.

"On some occasions he follows almost exclusively one or other of these three conflicting principles. Adrift in a ship's boat on the Atlantic, or in charge of the administration of a hospital, he follows the first or communist principle. In his almsgiving to individuals he follows the second, which we may call the day-nursery principle. In his ordinary business transactions he adopts the third principle. But in regard to the raising and expending of public revenue he wavers between the three.

"Now, it happens that a man wavering between these three principles is certain to regard any action of the State which will increase the existing inequality of wealth as inequitable. Such action will obviously be inconsistent with the first principle. It will, if general in its operation, be inconsistent with the second principle, since there is no reason at all for believing that the rich as a class are more meritorious in as great a degree as they are richer than the poor. It will also, if general in its operation, be inconsistent with the third principle, because the very rich are very rich as a class, not so much in consequence of any services performed by themselves, as in consequence of inheriting property. Any action of the State, therefore, which increases the existing inequality of wealth, except in a very partial and unusual way, will offend the ordinary person's conception of



equity in distribution, no matter which of his three principles happens at the time to have most prominence in his mind.

"Whether this is, so far as it goes, a correct account of the origin of the idea that it is inequitable to cause greater inequality by State action or not, there is no doubt about the fact that State action causing greater inequality is almost universally regarded as inequitable. To show that, on certain principles, it would be necessary to tax the rich at a lower percentage in income than the poor is considered a *reductio ad absurdum* of those principles."—*E. (Professor) Cannan* (Memoranda, C. 9528, 1899).

### **Professor Pigou on Kinds of Taxes and Taxes on Land.**

"The source from which the national and local revenue of any country is derived, except in so far as a small contribution can sometimes be obtained from foreigners, is the income of the people of that country. The reasons why it is so important to choose carefully between the innumerable ways in which this source could be tapped are two in number. First, while all methods might be made to transfer the same amount of income from the people to the Treasury, and thus to produce the same direct effect, some methods of doing this will produce larger indirect effects than others. Secondly, the distribution of the burden among the different members of the community will vary according to the system of taxation that is adopted. What we should aim at is a system that will inflict as little indirect injury as possible, and under which the distribution of the burden will be as satisfactory (the ambiguity of this term is intentional) as it can be made. . . .

"The most important of the conclusions we have reached may now be summarised in a few sentences. The unimproved or public value of land is, economically speaking, an exceptionally good object for taxation ;

and, if the imposts laid upon it are moderate in amount, they cannot be condemned upon grounds of equity. To the objection that the difficulty and expense of making the necessary valuations would be prohibitive it must be replied that the burden of proof lies with those who maintain this view. Public annual value of land is a more suitable object for taxation than public capital value. As between the annual value of land in its actual and in its immediately most profitable use respectively, the arguments are fairly evenly balanced. Imposts upon increments in the public value of land which are so large in amount as to involve beyond reasonable doubt a considerable element of windfall may also be levied with advantage. The money raised by the proposed new taxes should be devoted to the relief of existing rates upon buildings and improvements. It should be added to the other funds set aside by the Treasury for the Local Taxation account, and distribution between the several localities should be effected on some such plan as that proposed by the Minority of the Royal Commission in Local Taxation. These suggestions are put forward tentatively.”—*Professor A. C. Pigou : The Policy of Land Taxation, 1909.*

### Capital Levy : Literature.

The case against a capital levy is stated by Professor Scott in the *Economic Journal*, September, 1918; by Sir Josiah Stamp in the *Edinburgh Review*, October, 1919, and in letters and articles in the *Times*, especially in the issues of November, 1922.

The supporters of a levy have issued several books and pamphlets. *A Levy on Capital* (Fisher Unwin), and *The National Debt* (Labour Publishing Co.), both by F. W. Pethick Lawrence, M.P.; *A Capital Levy* (Oxford University Press), by Professor Pigou; *The Capital Levy Explained* (Labour Publishing Co.), by Hugh Dalton, D.Sc. (Econ.).

**Economic Terms.**

*Ad valorem Duties* are levied according to the value of goods taxed (e.g. Stamp duties). British customs duties are not generally fixed according to values, but according to quantities. These are called *Specific Duties*.

*Balance of Trade*.—If exports are greater in value than imports, then the difference is paid in money. This is called a "favourable balance of trade." This was greatly desired by the old "Mercantilist" economists, who measured a country's wealth largely by its store of gold. The idea lay at the root of many protectionist tariffs.

*Classical Economists*.—Adam Smith, Malthus, Ricardo, James Mill, McCulloch, Nassau W. Senior (John Stuart Mill is sometimes counted with these). The French Classical Economists are the Physiocrats.

*Consumer's Surplus*.—If a man is willing to give a shilling for an article, while the market price is 4d., he is said to get a rent or surplus of 8d. The idea has not been very fruitful in economics.

*Engel's Law*.—The more wages received by workmen, the less percentage of the wages is spent in food; and *vice versâ*.

*Entrepreneur*.—One who undertakes business risks, in the hope of profit; an "enterpriser" in business.

*Final Utility*.—Jevon's phrase for what Marshall calls Marginal Utility. The utility of the last "portion" bought.

*Incidence of Taxation*.—The first payer, as for example a tea-importer, pays the customs duty when he takes the tea out of the "bonded warehouse" where it is stored on landing. The "incidence" or "impact" of the tax falls on him in the first place. He adds the amount of the duty to the price at which he sells the tea, thus "shifting the burden of the tax" upon other shoulders. The actual tax is paid by the consumer, who finally buys the tea at a price which consists of (1) price of tea, (2) amount of tax.

*Mercantile System.*—See “Balance of Trade,” and p. 293.

*Octroi.*—Continental duties levied on goods entering towns.

*Over-production.*—“The production of more goods of a certain kind than can be sold at a profit.”—*Dict. of Pol. Econ.*

*Physiocrats.*—Quesnay, Mirabeau the elder, Mercier de la Rivière, Du Pont de Nemours, Abeille, Baudeau, Le Trosne.

*Rates.*—Payments levied by local authorities. The method is to fix the sum needed, and to divide it by the total valuation of the fixed property of the district ; so that so much is to be paid on each £1 of rateable value.

*Rateable Value* is less than full value, so arranged in order to allow for repairs to property.

*Sabotage.*—“The act of inflicting injury on an employer, either by damaging the raw material or implements, *e.g.*, putting sand into the machinery ; or by wasting the goods for sale, *e.g.*, giving double the quantity to the consumer for the same price ; or by not working efficiently ; or even by fastidiously applying all the rules in such a way that the service cannot proceed.”—*Gide*. This last method has been effectively used by railway employees.

*Schools of Economists.*—The Austrian School (Menger, Böhm-Bawerck), inclined to deductive methods.

The Historical School (German chiefly : Roscher, Sismondi, List, Ashley).

The Mathematical School (English : Edgeworth, Marshall).

*Sliding Scale.*—A scale of payments arranged to vary according to conditions ; as for example wages, to be raised or lowered according to the cost of living.

*Specific Duties.*—See *Ad valorem*.

*Sunspot Theory.*—An explanation, offered by Jevons, to account for periods of good and bad trade. He

connected them with harvests, these with sunshine, and this last with the 11-year change in sunspots, due to the rotation of the sun.

*Surplus Value.*—The Marxian theory that labour produces a surplus of value which is appropriated by capitalists as profit.

*Truck.*—Payment of wages in goods. It was a system that lent itself to abuse.



## BIOGRAPHICAL SYNOPSIS

### Ancient Writers.

Plato and Aristotle (fourth century B.C.) are the only writers of antiquity who have left works of any importance on economics; Plato in *The Republic* and *The Laws*, Aristotle in *Politics*. It was Aristotle who denounced usury because it is by its nature barren: "Usury, by transferring merely the same object from one hand to another, generates money from money; and the interest thus generated is therefore called 'offspring' (*Gr.* *τοκος*)." .

### The Mediæval Writers.

Of these the most famous is Thomas Aquinas (Thomas of Aquino, Naples, 1227-1274). He, like all ecclesiastical writers up to and including Luther, denounced usury; but of general economics little was written earlier than the seventeenth century.

### The Mercantilists.

The next phase shows the development, not of an ethical or religious idea, but of a political school of thought: "mercantilism." It has been called "Colbertism," after the French minister Jean Baptiste Colbert (1619-1683). The fundamental principle of the mercantilist writers was that the wealth of nations was great or small in proportion to the amount of coined money in circulation; and that was in proportion to the store of gold and silver held by each country. It was not, as is sometimes suggested, that the Mercantilists thought

money and wealth to be identical, except in a few cases. (John Law, for example, the founder of unhappy "Mississippi Scheme," fell into this error, or something very like it.) But the Mercantilists generally held that a store of gold and silver was the chief means towards an increase of national wealth. They therefore advised governments to encourage exports, which would be paid for in gold; and they looked doubtfully upon imports from foreign countries, since these would take away gold in payment. A good "balance of trade" was thought to be one where exports exceeded imports, for the balancing of accounts would bring in gold. Modern Protectionism is in part descended from the older Mercantilism. Thomas Mun (1571-1641) was the first to state this theory of the "Balance of Trade" clearly, in *A Discourse of Trade* (1621), and *England's Treasure by Foreign Trade* (1664).

### The Physiocrats.

The next school of thought to develop was that of The Economists, as they called themselves, or the Physiocrats, as they are better known, after a book written by one of them, Dupont de Nemours (*Physiocratie*, published 1768). The most famous of the group was Dr. Quesnay (1694-1774). The French Minister Turgot, though sometimes classed with the school, does not strictly belong to it. The essence of the Physiocratic teaching may be summarised thus: There is throughout nature an order of things established by God. This should be known and followed. In the field of economics the aim should be for each to "secure the greatest amount of pleasure with the least possible outlay" (Quesnay). The State should therefore remove all artificial barriers to free action and should protect life and property. This grew into the doctrine of *Laissez faire*. Nature's work, as in agriculture, gave a "net product"; man's work did not. Commerce and manufacture, therefore, did



not add to the world's wealth. They supported those who worked in them, but yielded no surplus. It followed that taxes should be levied on land alone, since only land produced a net product. Agriculturists and fishermen (perhaps also miners) were the only productive workers. Side by side with these there was a possessing class; below both, a sterile class—merchants, professional men, manufacturers, and artisans.

### The Moderns.

*Adam Smith* (b. 1723, d. 1790) was a native of Kirkcaldy. He studied at Oxford, where he benefited little, he said, from the official lectures. He held a professorship of Logic, and afterwards of Moral Philosophy, at the Glasgow University. His *Theory of the Moral Sentiments* was published in 1759, his more famous book in 1776. This he called *An Enquiry into the Nature and Causes of the Wealth of Nations* (see also p. 158).

*Thomas Robert Malthus* (1766–1834), published in 1798 *An Essay on the Principle of Population as it Affects the Future of Society*. The book aroused a fierce controversy, and its use of a phrase “the struggle for existence” helped to stimulate Darwin towards the researches which led to his works on Natural Selection. The chief argument in Malthus’ work is that population tends to increase (if not checked by “vice or misery” of one kind or another) in a geometrical ratio, whereas the supply of food increases in arithmetical ratio. (There is no sufficient evidence for such a mathematical statement.) Malthus speaks of food as produced by the earth, as a product of the soil, not as a product of men’s labour on the soil, which is a more accurate description. When he regarded the prospect of more mouths to be fed than could be filled he forgot, as J. S. Mill pointed out, that with every mouth “God sends a pair of hands.” Nor did he sufficiently grasp the fact that the produce of the earth depends on skill

and knowledge, which do not necessarily increase by "arithmetical" or any fixed progression.

*David Ricardo* (1772-1823) was born in London, the son of a Dutch Jew. He made a fortune for himself on the Stock Exchange, and his first published work was on the price of bullion (1809). His *Principles of Political Economy* (1817) is not a complete or well-arranged treatise, but is an important book for students of the history of economic theories.

Ricardo's theory of rent has been dealt with in the chapter on Rent. His theory of the distribution of wealth is as follows :

- (1) The demand for food fixes the margin of cultivation.
- (2) The margin of cultivation fixes rent.
- (3) The cost-of-subsistence of labourers fixes wages.
- (4) The amount produced by labour, less the subsistence-wages of labour, fixes profit.

Under free competition, Ricardo held that the interests of the individual and the interests of the community could never be at variance.

The argument summarised above ((1) to (4)) is a good example of the deductive method of the Ricardian school. The most complete text-book of that school is McCulloch's *Political Economy*, a very serious volume which cannot now be taken seriously.

*John Stuart Mill* (1806-1873). Mill learned the foundations of his economics, at the age of thirteen, from his father, James Mill, whose *Elements of Political Economy*, a heavy Ricardian treatise, was published in 1821. John Stuart Mill's very readable *Political Economy* reflects rather the ideas of 1820 than of 1848. A modern critic of Mill (Mr. J. A. Hobson) has pointed out that most of the distinctive dogmas of Mill's book have been weakened or abandoned : *e.g.* that industry is limited by capital ; that wages are advanced from a wage-fund ;

that a demand for commodities is not a demand for labour ; that value depends on cost of production ; that rent of land is a unique surplus and is not paid out of the product of labour. To a student-reader we might say in the style of an examination paper : " Criticise these statements."

### The Critics (nineteenth century).

The two outstanding critics of Victorian economics were Karl Marx (Heinrich Karl Marx, 1818-1883), and John Ruskin (1819-1900). From different angles both these men attacked the view of social life presented by the early economists. But while Marx accepted the Ricardian description of economic motive and action, and applied it deductively, as for example in his labour theory of value, Ruskin found it repellent and uninteresting. Marx was chiefly concerned with the question of social justice, expressed through government, politics, and economics. Ruskin's main interests were those of art and ethics in relation to social life. The two men were only alike in their final aims and in their heterodoxy ; but perhaps a close comparison would reveal several common traits. *Das Kapital* (1867) was the first volume of a larger project. Two other volumes were compiled by Engels after the death of Marx, from incomplete manuscripts.

The first chapter of Ruskin's *Unto this Last* appeared in the *Cornhill Magazine* in 1860, and roused such a storm of opposition that the editor (Thackeray) felt obliged to discontinue the work. It was published in book form in 1862.



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